

# Nation's Business®

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Staples: Superstore  
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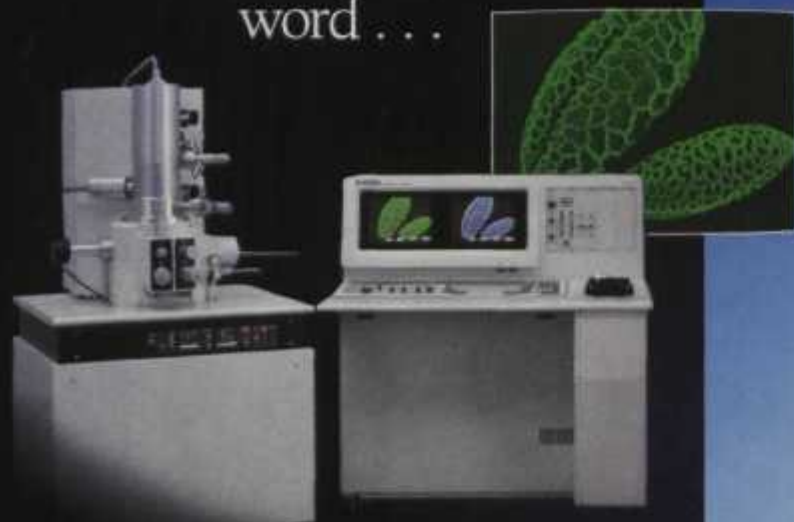
# CHALLENGE TO WOMEN

*As business owners,  
they're grappling with  
the issue of growth.*

Lynn Wilson—  
\$250 million a year  
and still growing



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may not be  
a household  
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PHOTO: T. MICHAEL REZA

**Impressive business growth**—such as the achievements of Jane Haley, above, and Lynn Wilson, in the cover photo—is becoming more the rule than the exception for women entrepreneurs nationwide. Cover Story, Page 16.



PHOTO: ©RICK FRIEDMAN—BLACK STAR

**The credit crunch** hitting small firms delayed work on a hangar at Wayne Mansfield's firm. Finance, Page 25.

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Washington, D.C.

# Editor's Note

## Women Of Achievement



PHOTO: T. MICHAEL KEZA

*In command of the nation's largest charter airline: dream builder George Mikelsons. Making It, Page 12.*



PHOTO: T. MICHAEL KEZA

Special Correspondent Sharon Nelton is one of the most experienced, most authoritative journalists on the subject of women in business. (The Small Business Administration chose her as one of 11 regional winners in its 1990 competition for the award of Women in Business Advocate. In the photo, B.J. Paprocki, an SBA official, is presenting the plaque marking that achievement.) But she still encounters some surprises.

"What amazes me," she says, "is the perception that most women business owners aren't very serious about what they do." She ran into such views during her research for this month's cover story on how women entrepreneurs are expanding their businesses.

But for the most part, Nelton reports, "what I am seeing is women who take their businesses very seriously and who want and expect those businesses to succeed. The evidence is building that women's business ownership is much more than a mere fad. For many women, it's the way out from under the glass ceiling that keeps them from achieving their full potential in corporations. It's a way for them to be their own boss and run things the way they like—and to test some new ways of managing. And it's a much more rewarding way for women to gain both monetary return and fulfillment in their work life."

Another highlight of her research was her interview with Edward M. Moldt of the University of Pennsylvania. "I've rarely found a male authority so enthusiastic about what women business owners are accomplishing and will accomplish," Nelton says. He predicted that "between now and the 21st century, we're going to see women really coming into their own as far as [growing] businesses of substantial sizes."

You'll more than likely agree with him after you've read this month's cover story, which starts on Page 16.

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*Robert T. Gray*  
Robert T. Gray  
Editor



# Letters



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### Postal Service

Your May 1990 cover story, "Postal Rates: The Growing Threat," featured an interview about me and my business. Although the story correctly catalogued the problems my business encountered when the Postal Service raised the rates for my advertising mail by approximately 35 percent over a three-year period, your article inaccurately



PHOTO: ©DENNIS BRACK—BLACK STAR

quoted my response to the pending rate proposal of the Postal Service before the Postal Rate Commission.

I did not tell your reporter that I was "terrified and indignant" about the Postal Service's proposal for the type of advertising mail I use. I did state that I was concerned that the Postal Rate Commission would not adopt the guidelines suggested by the Postal Service and that I would be faced with another steep rate hike. An increase would force me, once again, to cut back on my mailing.

My business cannot survive without affordable advertising mail. It is so important to me that I helped form an association in 1983 with other business owners like me to educate the Postal Service about the dependence of small-business advertisers on the Postal Service and the price sensitivity of our mail.

Although the Postal Service's rate request asks for a 19-percent increase, on an average, the Postal Service did recognize the benefits of advertising mail to small business and how we suffered from the 1988 rate increase. Because advertising mail tends to be entered locally and is efficiently prepared so that it is inexpensive for the Postal Service to deliver, the Postal Service's proposal contained discounts that would result in our rates increasing by 12 percent or less.

I do want to applaud your efforts to ask why postal rates have outpaced the consumer price index since 1970. However, as the leader of a small-business

association of advertisers that depend on the Postal Service to advertise, I want to acknowledge the efforts made by Postal Service management to pass on the savings of efficiently prepared local mail to the advertisers that depend on it to survive.

**John Haas**

*President*

*Alliance Of Independent Store Owners & Professionals  
Minneapolis*

*[Editor's Note: The words "terrified and indignant" were not used as a direct quote from Mr. Haas. We felt they were a fair characterization of his position as stated in interviews and in his earlier congressional testimony for his small-business organization. He testified that rate increases had "hurt my sales growth and my bottom line" by forcing him to curtail mailing of advertising materials. His group viewed the prospect of further increases as "staggering."]*

Even half the \$40,000 average salary for postal employees is still 35 percent higher than the average salary of South Carolinians.

It is becoming a hardship for small businesses to continue operating because of unjustified increases by monopoly industries such as the Postal Service.

By their own admission, some of the ways they want to improve service would be at the expense of business, which assumes the cost of furnishing bar codes on envelopes and nine-digit ZIP codes.

There appear to be no reins on the Postal Service and the accountability for its services and costs.

**Jo Ann D. Rogers**

*The Loxgreen Co.*

*West Columbia, S.C.*

As a letter carrier for the U.S. Postal Service for over 10 years, I must object to this story. No doubt this article was created by a promoter of privatization of the Postal Service that would turn the delivery of billions of pieces of mail into chaos.

I was especially disturbed by the accompanying article "The Rewards of Service." As a letter carrier, I earn \$14.65 per hour. It took eight years to achieve that rate (it now takes 12 years). Last year I earned \$827 in overtime. This is a far cry from the \$40,000



with "lots of overtime" stated in your article.

As for the benefits, I receive four weeks of annual vacation and 13 days of sick leave per year. I only receive partial payment of health benefits (no optical and very little dental coverage).

And what is wrong with job security after six years?

The paragraph about uniforms was totally misleading. Letter carriers receive a \$229-per-year clothing allowance, period. With that, they must purchase shirts, pants, shoes, jackets, gloves, hats, rain gear, and winter gear.

Wayne Mineard  
Chester, W.Va.

*[Editor's Note: A report by the U.S. Postal Service Finance Group shows that the average total compensation—wages and benefits—for postal workers covered by union agreements is \$37,048. That does not include overtime and premium pay, which would bring the final average figure to more than \$40,000.]*

According to a spokesman for the American Postal Workers Union, under the current collective-bargaining agreement, every uniformed postal employee receives each year \$229 worth of vouchers redeemable for clothing from Postal Service-authorized vendors.]

If you really don't want postal rates to rise, then argue for doing away with Saturday delivery. This will save the Postal Service around \$5 billion a year.

I think you just want the Postal Service broken up! I know the Postal Service needs to improve in several areas. What business doesn't?

You complain about prices going up. Everything goes up, and if you cut everybody's salary down to \$4 or \$5 an hour, except for the top managers, sooner or later no one will have enough money to buy anything, causing the whole economy to crash.

Most important of all, if the Postal Service is broken up, prices will end up being 10 times as high—if you will even be able to get things delivered—because private businesses will only want to deliver in high-volume areas such as business districts.

Lawrence J. Villere  
Postal Worker  
Metairie, La.

The Postal Service not only suffers from high costs and poor service, but it is faced with a shrinking market for its service.

Today, I fax much of my correspondence, use the convenience of 800 numbers for inquiries, store drawings via

graphics for computer transmittal, and view prospective equipment offerings through video cassettes. Private parcel services provide reliable overnight delivery to my customers anywhere in the world.

I cannot remember when I have conducted any financial business via a letter and postage stamp, and now several of my favorite catalog mail-order firms are using television, converting me into a "TV shopper."

If the U.S. Postal Service cannot advance from the 19th century, it should be scrapped and the necessary services should be turned over to private enterprise.

Lloyd Hornbostel  
Beloit, Wis.

The underlying message of your article is that postal workers are overpaid. Perhaps you would prefer that still more union jobs (which make it possible for workers to actually live on their wages) be lost, that all postal workers be paid fast-food wages and have no set work hours. Is that your idea of the American Dream?

Tim Mueller  
Danbury, Conn.

## Re/Max

In "The Rise of Re/Max" [April], David Liniger recounts an adventure during a leopard hunt in southeastern Africa.

It is sad that Mr. Liniger, who otherwise demonstrates innovation in his business affairs, should take part in the hunt of an already endangered species and then relate the tale as the "ultimate, all-time-great hunting story."

Mark J. Brancato  
Nutley, N.J.

*[Editor's Note: African governments strictly regulate safari hunting. The government of Botswana issued David Liniger a leopard-hunting permit.]*

## Leasing

As the author of *Lease Your Car For Less*, a guide to vehicle leasing written for nonleasing professionals, I'd add two points to Julie Candler's well-written article, "Cutting Costs On The Road" [May].

First, leasing is also becoming extremely popular among our nation's small-business operators where a "fleet" may be one or two cars. Second, most business operators know little or nothing about leasing, particularly how to negotiate for the best rates and terms and to avoid pitfalls.

Richard L. Kaye  
Northbrook, Ill.

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# Greetings With A Playful Purpose

By Mary Jane Brand and Bitten Norman



BITTEN NORMAN AND MARY JANE BRAND

**A**bout a year ago, we began to learn that research, perseverance, and a do-it-yourself spirit can turn a good idea into a thriving business.

It was Mary Jane who came up with the idea for our business—making greeting cards to be sent directly to pets, as well as to pet lovers—after taking care of 11 cats for her daughter one weekend. Though the cats regarded Mary Jane as a stranger, they were friendly toward her, and she thought there should be a way for her to say thanks for their gentle behavior. Pet-oriented greeting cards seemed to be a novel way to do it.

We talked about the idea; we are friends with family ties, and we thought the notion might have the makings of a small business we could start in Mary Jane's home in Ellicott City, Md., near Baltimore. First, we had to learn if there would be a market for pet cards. The American Society for the Prevention of Cruelty to Animals told us that 52 percent of Americans own pets; 49.9 million people own dogs, and 57.5 million own cats. Over \$161 million is spent yearly on TV ads for pet-related products.

The information from our initial research persuaded us to turn the idea into a product. Our total budget was \$1,700, so "do it yourself" became our motto. Mary Jane had varied experience from her years as a restaurant manager; she had done payroll, cooked, and planned employees' work schedules. Bitten had come to know the card industry from six years of work in a card store, where she designed windows and did calligraphy, signs, and advertisements. And we both knew about flexibility from having reared eight children between us.

As do-it-ourselves, we created our own designs, salutations, logo, and slogan, "Pet Cards, Greeting Cards for Special Pets and Their Friends." We have limited our cards to certain holidays and sentiments: Valentine's Day, Mother's Day, Christmas, birthday, get well, thinking of you, sympathy, thank-you, and congratulations on your litter.

Despite our years of work experience, however, we needed to know more about running a business. We took a course in small-business money management, sponsored by SCORE, the Service Corps of Retired Executives, a program of the Small Business Administration. We also consulted with lawyers before choosing one, read about the types of corporations to decide how to organize,

and chose S-corporation status for our firm, Pet Cards Inc. In addition, we became familiar with court cases involving card companies whose designs were used by others. We decided to protect our product by copyrighting each card.

We looked through the Yellow Pages for printers to produce the cards and pet stores to sell them. We needed 5,000 cards for a cost that would not leave us strapped. Some printers quoted high prices, and some felt we were too small—or our idea was ridiculous—and never called back. We chose a local quick-print shop whose owner is now a loyal ally.

Bitten designed a point-of-purchase wall display, which we thought would be a money saver because we would assemble it. In keeping with our do-it-yourself motto, we packaged the cards and sold them ourselves. We called the stores and said, "We have a brand-new product, and we've chosen you because your store reflects the philosophy behind our product." We began with pet boutiques, but soon we found so much interest in pet products that we decided to sell also in card and gift shops, department stores, and hotels.

The cards were well-received by almost all of the retailers we approached, but many found our wall display cumbersome. We bought standard counter-top racks, and the cards began selling faster.

We were eager to promote our product, but we found that advertising agencies were too expensive for us. One agency quoted us a minimum of \$200,000 for a start-up campaign. Once again, we had to do it ourselves, and it proved easy.

By noting the types of feature stories in local newspapers and on television programs, we learned which reporters were interested in pets and unusual businesses. Our phone calls to those reporters produced several interviews, and we are hoping for more. The publicity seems to be working. One retailer put the cards away but then had to display them again because of customer requests generated by a newspaper article.

We also received two notes from President Bush's dog Millie after we sent her cards—"Congratulations on Your Litter," followed by a "Thinking of You" card and a Mother's Day greeting.

It has been just over a year since we first talked about Pet Cards. Since then we have put our cards in 35 stores in six states, we have sold all of our original stock, and we are having the cards reprinted. And we no longer use our personal funds.

We succeeded through countless hours of research, with a lot of perseverance and do-it-yourself effort, and with an investment of less than \$2,000. We've done it our way, and it's worked. **NB**

*The information from our initial research persuaded us to turn the idea into a product. Our total budget was \$1,700, so "do it yourself" became our motto.*

Mary Jane Brand, of Ellicott City, Md., is president of Pet Cards Inc.; Bitten Norman, of Towson, Md., is vice president.

Readers are invited to contribute to Entrepreneur's Notebook. Write to: Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.





*"You'll never  
know how sweet  
freedom can be  
unless you've lost  
it for 8½ years."*

EVERETT ALVAREZ, JR.  
VIETNAM POW

Everett Alvarez, Jr. was starved, beaten and forced to endure unspeakable tortures.

His years of horror began in 1964 when the U.S. Navy plane he was piloting got shot down over the Gulf of Tonkin. For the next 8½ years he was a prisoner of war—the longest held in North Vietnam.

During those endless months he struggled to preserve his honor and his sense of self. And by his example inspired dozens of other POW's.

"When you're caged up in an alien land," relates Alvarez, "you begin to understand the essence of liberty, and what we have here in this country...."

"The return to freedom was exhilarating. Everything I touched felt good. Everything I ate tasted good. Everything smelled so good. It was sweet beyond belief. Now, I wake up every day and, no matter what I have to face, I look forward to it with anticipation. I'm here and able to choose, able to do, able to act as a free individual."



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# Small-Business Update

*Early intelligence on resources to help you take advantage of the changing business climate.*

## LEGISLATION

### Mandated-Leave Act Faces Obstacles

A bill to mandate unpaid-leave policies for employees faces an uncertain future despite passage by the House of Representatives.

The measure, now in the Senate, could be blocked by a filibuster—a prospect that might discourage Senate leaders from calling it up. And the 237 House votes for passage would be short of the two-thirds majority needed to override a presidential veto.

The opposition comes primarily from business organizations that see the mandating of benefits as a costly and unwarranted government intrusion into relationships between employers and employees. Christine Russell, House liaison for the U.S. Chamber of Commerce, says: "Federally mandated leave jeopardizes the rights of employers and employees to be flexible in negotiating alternative benefits best suited to individual circumstances."

As passed by the House, the Family and Medical Leave Act would force employers to provide up to 12 weeks of unpaid leave a year to employees who sought the time off in connection with the birth or adoption of a child; or the serious illness of a parent, spouse, or child; or for the employee's own illness.



PHOTO: T. MICHAEL KEZA

**Rep. Fred Grandy** led the House floor fight against mandated leave.

Supporters try to minimize the bill's impact by noting the leave would be unpaid and firms with fewer than 50 employees would be exempt. Opponents counter that firms would have to pay for benefits for workers on leave and would incur heavy costs for temporary replacements.

In the House debate, Rep. Fred Grandy, R-Iowa, who was floor leader for the opponents, declared, "To tell people that this bill doesn't cost anything is an outrageous lie."

*[See also the item below on the Disabilities Act.]*

## TAXES

### How To Register Your Vote Against Higher Taxes

A tax hotline has been set up to let you tell President Bush, your senators, and your representative that you are against tax increases. The service is sponsored by the U.S. Chamber of Commerce and the Coalition for Fiscal Restraint (COFIRE).

It starts with a telephone call to 1-800-325-4176, a special Western Union line; ask for operator No. 9750, who will request your name and address. Your single call will generate a personal message urging the four elected officials to oppose tax increases and reduce the deficit via spending cuts.

The message to the president also urges him to stand by his oft-stated pledge against higher taxes.

The call costs \$7.95, which will be billed to your home telephone.

## DISABILITIES ACT

### Litigation Will Greet New Law On The Handicapped

A flurry of litigation is expected to surround implementation of the Americans With Disabilities Act, which Congress is sending to President Bush for his promised approval.

The bill mandates business action to accommodate disabled employees and customers. Its use of "reasonable efforts," "readily achievable," "undue hardship," and "substantially alter" could trigger lawsuits aimed at clarifying those and other terms in the measure that its critics say are too ambiguous for equitable enforcement. The measure exempts firms with under 25 employees; the threshold drops to 15 in four years.

*[A full report on the measure's business impact will appear in a later issue of Nation's Business.]*

## SUBSTANCE ABUSE

### Director Bennett Lauds Business's Drug Fight

Employers have played a pivotal role in the downturn of substance abuse in the U.S., said William J. Bennett, director of the Office of National Drug Control Policy. Bennett said the decline will continue as long as employers "speak out" against and "look out" for drugs and alcohol in the workplace.

"I want to salute American business because it's done its job" fighting substance abuse, Bennett said. "Casual users," who Bennett said make up the majority of substance abusers, "tell us they will stop using drugs if they have a reason to. You can affect a lot of people's behavior by hitting them in the paycheck."

Bennett addressed his remarks to the Breakfast Bunch, an informal group of Washington-based business representatives organized by the U.S. Chamber of Commerce. The group meets periodically at Chamber headquarters for reports from top government officials on issues of major concern to business.

Bennett acknowledged the sensitivities that employers face when ferreting out drugs and alcohol in the workplace. However, keeping substance abusers out of companies "doesn't mean people in the workplace need to go to extreme lengths or be authoritarian," he said. They simply must send a "clear and unequivocal message" that drugs and alcohol will not be tolerated.



PHOTO: T. MICHAEL KEZA

**William Bennett** urges opposition to workplace drug use.



# The average secretary spends 118 hours a year at the copier.\*



Barbara Champney  
Author of "A Ten Minute Guide  
To A More Productive Office"

Making a secretary's workday the most productive it can be isn't easy. Just think about how many nuisances can cause a secretary to fall behind. For instance, inefficient office equipment such as a copier. In fact, a study by an independent research organization shows that the average secretary spends 118 hours a year at the copier. Imagine the increase in productivity if that

time could be reduced by as little as 20%. The right copier can give a secretary a lot more time to do other things.

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There are copiers in every category that will speed up certain jobs and turn previously wasted hours into productive time.

So before making any decision on what to purchase, it's imperative to plan for it. Because the right piece of equipment is a true business asset.

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Features such as these demonstrate why it's so efficient:

- 50,000 copies can be produced before adding toner.
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## GOVERNMENT CONTRACTS

## Small-Business Parity Sought In Federal Contract Awards

Procurement trends in the federal government are hampering congressional efforts to encourage more contract awards to small businesses, Rep. Silvio O. Conte, R-Mass., reports.

Conte, senior Republican on the procurement subcommittee of the House Small Business Committee, made his assessment in reporting on the status of various programs to channel federal contracts to smaller firms. He noted that such enterprises contribute 40 percent of the gross national product but receive only 32 percent of federal procurement contracts.

"We must ensure that small-business participation in federal procurement achieves parity with their contribution to [GNP]," Conte said.

Working against achievement of that goal, he added, are such practices as "bundling," in which several contracts on which smaller firms could bid are combined into a single, large contract. "Contracts that are bundled effectively eliminate small businesses as prime contractors because only large businesses with the concomitant financial and technical resources can respond." A small business able to provide a spe-

cific service would probably not be able to compete for a contract requiring a wide range of services, he noted.

Conte cited a letter he received from the Department of Defense in which that agency "lists a number of reasons why DOD cannot increase small-business participation." The reasons include consolidation of contracts. Conte said, "As we cut back on the defense budget, the procurement mix will undoubtedly change to favor buildups in the non-small-business area." His anti-bundling bill would require federal agencies to issue an impact statement when contracts held by smaller firms are subjected to changes that would put the contracts beyond the firms' reach.

Said Conte: "The Small Business Act states unequivocally that it is the policy of Congress to insure that a fair proportion of the total purchases and contracts or subcontracts for property and services for the government be placed with small-business enterprise. [My bill] is consistent with that effort. Bid consolidation is not."



PHOTO ©CAMERON DAVIDSON—POLID, INC.

**Military-procurement changes could affect small businesses.**

## COMPENSATION

## \$116,000 Is CEO's Average Base Salary

The base salary for the average chief executive of a "middle-market" company in 1989 was \$116,500, a survey by the professional-services firm of Ernst & Young found. The average CEO also received a bonus equal to 49 percent of the base salary, the study said.

Ernst & Young's first "Middle Market Survey" collected data on 1,400 executives in more than 350 companies with annual revenues ranging from \$1 million to \$50 million. The study showed that base salaries of top executives increased 5.6 percent from 1988 to 1989. Bonuses for all top executives averaged 31.3 percent of base salary.

"The trend is toward pay-for-performance bonuses, with a concurrent move toward nonmerit, inflation-based salary adjustments," says Dan Garner, national director of Ernst & Young's entrepreneurial-services division.

For a copy of the survey, send a \$75 check—payable to Ernst & Young—to Walter Roque, Ernst & Young, 277 Park Ave., New York, N.Y. 10172.

## LOANS

## SBA Lending Programs Could Face Major Changes

A representative of government-guaranteed lenders told the House Small Business Committee that renewal of the U.S. Small Business Administration's lending programs will require major changes and greater funding if the programs are to keep up with regulations and economic changes in the 1990s. The committee is considering a bill to reauthorize the Small Business Administration through 1994.

The SBA's so-called 7(a) lending program could see "explosive growth" because of new guidelines established under the Basel Agreement, said Joel Van Ark, representing the National Association of Government Guaranteed Lenders. The agreement was ratified by 10 industrialized nations, including the U.S., to standardize investment risks. Lenders subject to its rules might prefer to make government-guaranteed loans under the SBA's aegis because they require less capital for support than regular business loans.

Regarding small-business loans generally, Van Ark told the committee that SBA should be more flexible—give increased consideration to an applicant's character and long-term prospects—on loan applications under \$50,000. He said agency officials review smaller loans "just as stringently as they would a \$750,000 request."

## NB TIPS

✓ A new guide to keep businesses up-to-date on employment laws has been published by the Association Department of the U.S. Chamber of Commerce. *Employment Law: A Checklist for Associations, Businesses, Advisers/Counselors* was written by Arthur L. Herold and Gerard P. Panaro of the Washington, D.C., law firm of Webster, Chamberlain & Bean. The guide covers legal requirements for employers in hiring, firing, and other employment activities. Copies are \$15 each from the Association Department, U.S. Chamber of Commerce, Washington, D.C. 20062. Phone orders: (301) 468-5128. Ask for publication No. 0191.

✓ The American National Standards Institute has published *Standards Management: A Handbook for Profits*, containing a step-by-step guide to the planning, implementation, and management of a standards program. The institute says that the 508-page handbook offers a plan through which companies of all sizes "can improve productivity and quality, control costs, and increase their competitiveness in the global marketplace." Copies of the handbook are \$99 each from ANSI; (212) 642-4900. NB

## FINANCIAL MANAGEMENT

## Insuring Your Accounts Receivable

Small-business owners should investigate the benefits of "business-credit insurance," a little-known type of coverage against commercial customers who fail to pay their bills, says the Philadelphia-based accounting firm of Laventhol & Horwath. Business-credit insurance covers commercial accounts only. Available policies cover a number of types of insolvencies, including bankruptcy and theft.

To qualify for coverage, a company's accounts should be with firms rated by independent credit agencies such as Dun & Bradstreet, enabling the insurers to gauge the risks they are assuming. Carriers generally insist on insuring a mix of receivables. Premiums for such coverage range from 0.20 to 0.25 percent of covered invoices.



# Dateline: Washington

*What's happening in the corridors of power that will affect your business.*

## TAXES/SPENDING

### Drive Under Way For Line-Item Veto

Leaders of the business opposition to higher taxes are calling for an alternative geared to spending restraint.

That restraint, they say, should include line-item veto authority that would enable the president to reject nonessential spending without jeopardizing valid outlays.

Richard L. Leshner, president of the U.S. Chamber of Commerce, says passage of a pending bill establishing line-item veto authority would "give the president another tool to help trim the bloated federal deficit."

He made his comments at a Capitol Hill press conference at which Sens. John McCain, R-Ariz., and Dan Coats, R-Ind., launched a drive to win passage of line-item legislation they are sponsoring.

With line-item veto authority, the president could reject specific spending proposals that he considered unnecessary or wasteful while approving the balance of multifaceted appropriations bills that he must now accept or veto in their entirety.



Supporting the veto plan: from left, Sens. Mack, McCain, and Coats.

McCain is optimistic that there is majority support for his bill in the Senate. He notes that 43 senators are committed to the specific bill and an additional seven to 10 senators are on record as favoring the line-item procedure.

Under that approach, Congress would retain authority to override a presidential veto.

## SMALL-BUSINESS CONFERENCE

### White House Conference On Small Business Proposed

The chairman of the House Small Business Committee has introduced a bill to authorize the calling of a White House Conference on Small Business in 1994.

Rep. John LaFalce, D-N.Y., said the conference would develop recommendations for legislative and executive action to deal with concerns of smaller firms. Special areas to be covered would include ways for small businesses to become more competitive in international markets, the status of women and members of minority groups as entrepreneurs, and steps to help small business generally in its role as the nation's prime generator of new jobs.

Under LaFalce's proposal, state conferences would develop an agenda and choose delegates to the subsequent main gathering. The president would appoint an 11-member commission to direct conference activities. Similar organizational structures were created for the 1986 and 1980 conferences.

## NEW SERVICES

### Chamber Services Give Business Input On Issues

Telephone services provided by the U.S. Chamber of Commerce let business people register their views on Washington issues.

The numbers, with the cost of the first/additional minutes of telephone calls, are:

**The Washington Dial**, a daily update on key business issues. 1-900-420-6001; \$1.00/50 cents.

**The Business Ballot**, a survey of business attitudes. Each Chamber member company receives a ballot. 1-900-420-2004; 50 cents.

**Opinion Line**, a poll of viewers of the weekly Chamber television program "It's Your Business." 1-900-420-6002; \$1.00/50 cents.

Check your local television listings for the dates and times that the program is broadcast.

The Chamber will use the responses to influence government policy decisions.

## SOCIAL SECURITY

### Payroll Tax Issue Still Alive

The debate over rolling back Social Security payroll taxes has faded from its peak earlier this year, but it is by no means over.

Prospects are that the proposal will be forced to a vote on the Senate floor as part of budget deliberations during the summer.

The tax-reduction proposal was first made late last year by Sen. Daniel P. Moynihan, D-N.Y., as part of a plan to put the retirement system on a pay-as-you-go basis. Moynihan set forth his plan arguing that the surpluses in the Social Security trust funds have been used to finance general government operations and to disguise the true size of the federal budget deficit.

## REGULATION

### Business Still Counts On Bush To Block Hiring-Quota Plan

Business still looks to the Bush administration as the last line of defense against legislation that could give employers a choice between the establishment of hiring quotas and heavy fines.

Some news reports suggested President Bush was wavering in his determination to veto a bill containing such provisions, but business sources keyed into White House thinking say those reports were overstated. The administration would not support a bill with the two proposals that business opposes the most, the sources say.

One proposal could establish quotas for minority representation in the workplace. Another provision would add punitive damages and compensation to penalties for violation of anti-discrimination laws, at an overall cost to business of as much as \$5 billion.

The business effort to defeat the bill is complicated by its designation as "The Civil Rights Act of 1990." Many lawmakers philosophically opposed to the type of government intrusion proposed in the measure are reluctant to oppose a measure offered under a civil-rights label, particularly in an election year.

Senate action on the bill is considered imminent, with the House to follow later in the summer. ■



# Making It

*Growing businesses share their experiences in creating and marketing new products and services.*



PHOTO: T. MICHAEL KEES

## When The Bombs Stopped Falling, His Dreams Started Growing

**O**utside L. George Mikelsons' office window, Boeing 727s and Lockheed L-1011s roar down the runways of Indianapolis International Airport and soar into the air, each one another fragment of Mikelsons' boyhood dream.

As a 7-year-old in 1944, Mikelsons huddled with his family in shelters during Allied bombing raids on Germany. "Every opportunity I had," he recalls, "I peeked up from the underground bomb shelter and watched the airplanes overhead. I dreamed that someday I was going to be up there flying around instead of down here having bombs dropped on my head."

Mikelsons has more than realized

that dream. As the founder and owner of American Trans Air, he heads the nation's largest charter airline, with 21 planes in the air throughout the world. ATA's holding company last year reported \$8 million in pretax earnings on \$279 million in revenues—not bad for a company that 17 years ago was just an idea and a \$25,000 bank loan.

Mikelsons was born in Latvia. When the Russians overran Nazi-occupied Latvia during World War II, the Germans offered passage out to Latvian women and children. Mikelsons' father sent his family to Germany, joining them there a year later. The family moved from town to town until the war ended.

*George Mikelsons pursued a love of flying until he became owner of the nation's largest charter airline.*

In 1949, when George was 12, they emigrated to Australia. There, Mikelsons' father—a former child prodigy who had played the violin throughout Europe—worked as an English interpreter for Latvian and Russian immigrants.

In 1959, thanks to a former student who was playing with the Indianapolis Symphony Orchestra, the senior Mikelsons was invited to spend a season with the orchestra. A year later, the whole family moved to Indianapolis; George was 23.

Out for a drive one afternoon, he spotted a sign advertising airplane rides for \$3 per person. "I had a girl with me," he recalls, "and I had \$7 in



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Here is the Controller's exact distance advantage as compiled by some low-80's golfers.

CONTROLLER® .....	220 yards
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## THE GREATEST STROKE-CUTTER IN GOLF

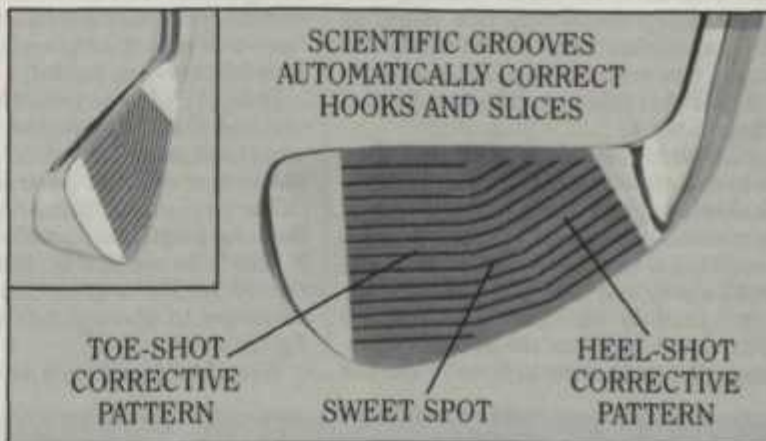
These scientific breakthroughs make the Controller driving iron the most powerful strokecutter in golf. We believe the club will transform the game. First of all, it obsoletes fairway woods! The Controller not only hits 30 to 50 yards farther than fairway woods, it automatically corrects hooks and slices! Here's how it works.

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Note that the Controller has three sets of grooves on its hitting surfaces. On the club's sweet spot the grooves are horizontal, as they are on other irons. Hit the ball here and it will go straight. But even pros sometimes hit off the heel or toe.

When a ball is hit off the heel of an iron, the blade will "close", and send the ball off to the left. When a ball is hit off the toe, the blade will "open", and send the ball off to the right.

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- it lets you carry more wedges and putters without exceeding the 14-club limit (by eliminating your #3, #4 and #5 wood)...

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...just for trying the Controller! Keep your new power pin-high with a \$15.00 Rangefinder! It's yours to keep FREE! even if you return the Controller for a refund. **RANGE YOUR NEW DISTANCE LIKE AN ARTILLERY OFFICER.** No batteries required. Clips to belt.



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**THE CONTROLLER HITS LONGER AND STRAIGHTER THAN ANY OTHER CLUB IN GOLF.  
IF IT DOESN'T CUT 5-10 STROKES, YOU OWE US NOTHING!**



## MAKING IT

my pocket. I said, 'Have you ever been up in an airplane?' and she said, 'No.' So we jumped in the back of a little Cessna and went up, and that was it."

The day after his Cessna experience, Mikelsons took his first flying lesson. He quickly earned his pilot's license, and soon after he began working as a flight instructor. Within five years, he was a copilot with an Indianapolis-based travel club, and he rapidly climbed the ladder to become director of operations.

"In 1973," he says, "I resigned, borrowed a few bucks from a friendly banker, bought a rusty Boeing 720, and launched this company." At the time, competition in the airline industry was still heavily regulated; the best Mikelsons could do was start a travel club that would serve as the exclusive customer for a charter service. Thus the

They were so good, they *did* treat their customers so well, that by 1976, after three years that Mikelsons calls "excruciatingly difficult," word-of-mouth had earned the joint operation not only plenty of praise but also a profit.

In 1980, after the airline industry was deregulated, ATA received a license to operate as a commercial charter airline—a license that allowed it, finally, to sell its services publicly.

Today, in addition to its North American and Caribbean flights, ATA operates throughout Europe. ATA also has a \$30-million contract to transport U.S. military personnel, primarily in the Far East. An initial attempt at competing as a scheduled carrier in 1986 and 1987 proved highly unprofitable, but ATA continues to operate a few scheduled flights.

When business began to expand, Mi-

## Are They Still Making It?

*From time to time, we'll take a look back and see what has happened to some of the small businesses featured in Making It.*

In December 1987, we reported on L'Image Graphics, a Culver City, Calif., firm that had carved out a niche in the greeting-card business. L'Image's cards were "minority-oriented," but not in any clichéd way; as we said then, "the L'Image cards emphasize elegance and fantasy—night skies strewn with stars, flowing hair dusted with jewels." L'Image had closed out its fiscal year with almost \$300,000 in sales of lines totaling 140 cards, and it had broken into upscale stores.

Over the past 2 1/2 years, L'Image's fortunes have followed a steady upward curve. According to President Wayne Wilson, who co-founded the firm with its art director, Taylor Barnes, L'Image's sales in fiscal 1989 totaled around \$750,000. The company now offers 350 cards, on sale in more than 3,000 outlets, with the Dayton Hudson stores and K mart among its new customers.

In the midst of this success, Wilson says, "our biggest problem is in terms of capital." As always for growing businesses, new customers have meant not just new revenues but also new expenses, which often must be met before the revenues arrive. L'Image has attracted some wealthy private investors who have helped it over that hump.

For David Mintz, the founder and chief executive officer of Tofutti Brands of Cranford, N.J., the past couple of years have not been so pleasant.

As we reported in our November 1988 issue, Tofutti Brands was a company "whose principal product, a non-dairy frozen dessert, enjoyed a meteoric rise as a more healthful alternative to ice cream." But from a peak of \$17.1 million in 1985, Tofutti's sales had plunged to \$7.7 million in 1987, bringing a loss of \$2 million.

In 1988, Tofutti seemed to be pulling out of its slump—in the first half of the year, sales were up, and the company eked out a slim profit. For the year as a whole, though, Tofutti showed a loss of \$652,000. In 1989, the loss grew to \$1.2 million.

Tofutti Brands is now trying to link up in some way with a food manufacturer that has what Mintz calls "distribution muscle."

—Michael Barrier



PHOTO: T. MICHAEL KEZA

**Mikelsons visits ATA's maintenance hangar at the Indianapolis airport. His company flies its 21 planes throughout much of the world.**

simultaneous birth of Ambassador travel club and American Trans Air charter airline. Although Ambassador could offer inexpensive trips to club members via ATA charter flights, regulations prohibited travel clubs from soliciting memberships or advertising their destinations and prices. "We had to be so good, we had to treat our customers so well, that word-of-mouth could do what advertising could do for anybody else," Mikelsons says.

In the early days, Mikelsons not only piloted ATA's only plane, he cleaned its cabin. His wife and a few employees booked reservations, worked as flight crews, and served as tour guides. What Ambassador and ATA lacked in personnel, they made up for in performance.

Mikelsons formed a holding company, Amtran, to act as the parent for American Trans Air, Ambassador, two booking agencies, and a subsidiary that trains airline pilots. Through all the growth and diversification, though, Mikelsons has retained sole ownership of Amtran and its subsidiaries—because, he says, becoming a publicly traded company would require him to pay too much attention to short-term earnings.

The key to his accomplishments, he says, has been willingness to relinquish control. "An awful lot of entrepreneurs have choked the goose that laid the golden egg because they didn't know when to let go," he says. "I let go a long time ago."

—Skip Berry



## MAKING IT

## In A River Town That Shuns Frivolity, They Put Glamour On The Water

**L**a Crosse, Wis., is a no-nonsense sort of Mississippi River industrial town, with a few small, green parks hunkered down on a riverfront otherwise dominated by such serious subjects as cement, beer, and cheese. As Francis B. Murphy says, "Nothing frivolous."

Murphy's business, a block from the water, is something of an exception to La Crosse's rule. He and his partner, James Sebranek, operate under the name Murphy Boats. They make sleek wooden powerboats, modern versions of the luxurious Chris-Craft and Gar-Wood boats that plied resort lakes and coastal waters in the '20s and '30s.

Despite their glamorous good looks, those earlier boats suffered under some powerful disadvantages: They required a lot of maintenance, and they had to be kept in the water so they wouldn't dry out and spring leaks. They faded away decades ago, displaced by boats with more practical fiberglass hulls.

The Murphy wooden boats incorporate enough modern technology to bring them even with their fiberglass competitors. The wood is held together with epoxy resins, for example, and epoxy-impregnated fiberglass cloth covers the hull below the water line; there is thus no need to keep the boats in the water. "We're building a modern boat out of wood," says Sebranek, 38. "Our boats are lighter, faster, and stronger than the old runabouts, with a lot less maintenance."

This mixture of elegance and convenience does not come cheap. The starting prices for Murphy Boats' runabouts and cabin cruisers range from \$36,773 to \$78,450, considerably more than comparable fiberglass boats. The manufacturing process for wooden boats can't be as efficient as producing fiberglass boats, Murphy explains, because a wooden boat has to keep doubling back for another coat of varnish.

Murphy Boats made only 18 boats last year and has never made more than 25 any year since production started in 1980; no more than six craftsmen are ever at work in the Murphy plant. Francis Murphy thinks 25 boats is about the limit before it would become necessary to compromise on quality: "If it gets beyond that, boats will go out of here that neither of us has ever seen."

As it is, Murphy's boats benefit from scrupulous attention to detail. Had you stood at the prow of one under construction last spring, for instance, you would have seen that the grain of the wood matched precisely on both sides.

Murphy, 57, grew up on a farm in Iowa, about 40 miles from La Crosse, and left school after the eighth grade. "There was no need to go on for higher education," he says, "unless you wanted to be a priest or a county agent." Over the next few decades, he started one successful business after another—he made wooden duck calls, and, under the name Great Circle Films, he made movies about hunting.

He met Sebranek through another of his businesses: taking aerial photos of farms in the Midwest, then selling the photos to the farmers door-to-door. Sebranek came to work for Murphy as a pilot in the mid-1970s and stayed

boat-building business full time.

As rich as most of his customers have to be—and as famous as some of them probably are (Murphy and Sebranek won't give out names)—Murphy doesn't speak of them with quite the reverence you might expect. The 1986 Tax Reform Act did his business no good, he says, because it cut back on tax shelters and therefore crimped the style of some of his likeliest customers: "new money trying to look like old money." Buying a boat for show, he suggests wryly, has a lot in common with buying a grand piano that no one ever plays: "When they buy a boat, it doesn't necessarily mean that they're going to put it in the water."

Like other dedicated craftsmen, Murphy has to live with the truth that the people who can best appreciate the boats he makes are not always the peo-



PHOTO: MICHAEL EVERTZ-PICTURE GROUP

**Murphy Boats' owners, Jim Sebranek, left, and Francis B. Murphy, use modern materials to build classic-looking wooden boats at their Wisconsin plant.**

around as Murphy shifted his attention to the boat business; now they are full partners. Essentially, Murphy oversees the production of the boats, and Sebranek sells them.

Murphy's enthusiasm for wooden boats is not a late passion: He remembers watching wooden boats on the Mississippi—"I thought a Chris-Craft with four portholes was far more interesting than a tractor"—and he built his first one when he was 12. He had an inkling there might be a business in them when, in 1960, he restored a derelict wooden boat. The boat caused such a stir, he says, "that I knew there had to be a specialty market." In the '60s and '70s he restored and repaired boats and built a few new ones, before going into the

ple who can afford to buy them. But sometimes money and appreciation do come together, in unusual ways.

Murphy speaks of a "very powerful man" who bought one of the smaller boats and then "called up one day and said he was coming up to buy a bigger one. I kind of asked him why, and he said, 'When I get in this boat, people talk to me, and they don't want anything.'" That executive could pull into a marina and, for once, find himself approached by people who wanted only to express their admiration for the beautiful object he had chosen to own.

As Murphy says, "It made him a regular guy. That's not a problem most of us have."

—Michael Barrier



# The Challenge To Women

By Sharon Nelton

**W**hen Lynn Wilson was turned down for a job in a commercial design firm in Miami more than 20 years ago, the hiring executive said he thought that if he hired her, she would just leave in a short time and start a business of her own. He didn't want the competition.

Wilson had never considered being an entrepreneur. But "if a complete stranger has that much respect for me," she reasoned, she should have the same belief in herself. So, at age 27 and as the mother of three preschoolers, Wilson started her own commercial interior-design company at home with \$200.

Today, Lynn Wilson Associates, based in Coral Gables, Fla., reaps annual revenues of over \$250 million by designing interiors—from woodwork to glassware—for the hospitality industry. The firm has offices in Tokyo, London, and Paris as well as New York and Los Angeles. Its projects have included restaurants, country clubs, and hotels for clients with names such as Trump, Sheraton, and Hyatt in locations from Aruba to Zaire. Lynn Wilson Associates also renovated the



PHOTO: © JACK WOOD

*Former model Lynn Wilson turned her art education into an international design business serving the hospitality industry. One of her company's jobs was renovating the interior of the prestigious Biltmore Hotel in Coral Gables, seen here before and after.*



PHOTO: © BRIAN SMITH



*Women who started businesses in recent years faced the challenge of making their companies grow. They are proving that they have what it takes.*



PHOTO © ROBERT HOLMGRUN

historic Biltmore Hotel in Coral Gables. Among its current projects is the 1,000-room Disney Mediterranean Resort at Walt Disney World, in Orlando, Fla.

Lynn Wilson's career gives an early signal of things to come. As the 1980s drew to a close, experts on entrepreneurship recognized that the millions of women who had started businesses in the 1970s and 1980s would face a new challenge in the 1990s: growing those businesses.

But would they? And if so, how much?

Some doubters argued that the best-known women who had grown large businesses from small ones were not

**Toy-company founder Lane Nemeth once expressed the desire to have a conglomerate. She's on her way.**

typical. "Sandra Kurtzig is a wild exception," Karl Vesper, professor of business administration at the University of Washington, in Seattle, told *Nation's Business*. Kurtzig, the founder of ASK Computer Systems, had nurtured her company to nearly \$200 million in annual sales.

"Someone like Debbi Fields is the wildly unusual exception," Cambridge, Mass., economic researcher David Birch echoed later to *Savvy Woman*

magazine, referring to the creator of Mrs. Fields Cookies.

Maybe so. But more and more women are becoming "the exception." Liz Claiborne Inc. had passed the billion-dollar mark in annual sales when Elisabeth Claiborne Ortenberg retired last year. Wells, Rich, Greene Inc., the advertising agency whose co-founders included Mary Wells Lawrence, had topped \$850 million in annual billings when she gave up management control this past spring. And since she led a leveraged buyout of the apparel conglomerate Warnaco Inc. in 1986, Linda Wachner, president and CEO, has grown the company from \$432 million to \$516 million



## COVER STORY



PHOTO: T. MICHAEL REZA

**Growth in business** has many meanings, says Karen Kennedy, founder of a \$25-million-a-year communications firm.

in annual sales. Profit growth has been even better—from \$45 million in 1986 to \$77 million last year.

Lane Nemeth's company, Discovery Toys, founded in 1977, reached \$70 million in revenues last year, and the Krok sisters—Sharon Krok Feuer, Arlene Krok, and Loren Krok—drove EPI Products Inc., founded in 1987 to import and distribute the Epilady hair-removal device, to a staggering \$200 million in annual sales in two years.

The trouble with trying to predict the future is that studies of women business owners are rare; the only government statistics available apply to sole proprietors, the smallest of businesses. Women now own more than one-third of those firms and are expected to own 40 to 50 percent of them by the year 2000. But figures about sole proprietors tell us nothing about the numbers of women owners of other types of companies. A study conducted earlier this year for Business Women Leadership Media Inc., a New York advertising and marketing firm, indicates that 48 percent of women-owned businesses are not sole proprietorships but are partnerships, corporations, or S corporations. The study surveyed women business owners in 11 professional women's associations.

Talia Carner, president of Business Women Leadership Media, cautioned against applying the figures nationwide to all business women. She also said, "I

prefer to stress what the study shows most clearly—that women are a much greater portion of American entrepreneurs than ever before known."

Optimistic that women will grow businesses to substantial size—with annual revenues of \$50 million to \$100 million a year—is Edward M. Moldt, managing director of the Snider Entrepreneurial Center at the University of Pennsylvania's Wharton School, in Philadelphia. He expresses certainty that the U.S. will be seeing more women creating billion-dollar businesses as well.

"This thing is really a stair-step kind of a process," Moldt explains. "You get comfortable with running a business at a certain level and say, 'Gee, I can do more than that.' Then you step up to another size. That's the way men have done it for a long time, and I don't see any reason to believe the ability to learn the process is at all sex-related. I think it just takes a period of time to get comfortable running a business."

The majority of women-owned businesses have been started since 1980, and, as Karen S. Kennedy points out, "when businesses start, they start small." In 1983, Kennedy started KSK Communications Ltd., a high-technology, business-to-business public-relations and advertising agency in Tysons Corner, Va. Now she has more than 40 employees and does \$25 million in billings a year.

The climate has also changed so that it now propels faster growth for women entrepreneurs.

"More and more women have access to banks, to venture capitalists, to new technology," says Kathleen Wiseman, a Washington, D.C., management consultant. "They're just traveling in different circles. My mother never sat on a bank board. I do. That's the kind of thing that gives me more information and probably allows me to take different kinds of risks."

Roxanne Givens, president of Legacy Management and Development Corp., an Edina, Minn., company that specializes in low-cost and senior-citizen housing, says it has taken 15 years for her to be able to walk into a bank and say: "There's this \$30 million project I want to do. How about it?"

Givens had two counts against her, she says: "Being a woman and a woman of color. So that while you experience all the same things [every entrepreneur] does, it's just a little more cumbersome in terms of establishing credibility and net worth." One change that she says is making a "big difference" in opening doors for women business owners is that many banks now have women vice presidents who are making lending decisions.

**W**hile earlier studies have suggested that women didn't want to grow their businesses but preferred just to enjoy them, Wiseman says reality may dictate something else. "I have seen women have one hell of a time staying in a no-growth strategy," she says. "It's such a quickly changing environment." A company may have to grow to benefit from economies of scale or to be able to "fuel" new business ideas, she says. "You've got to reach a size where you can generate the funds to do that."

Jane G. Haley, president and CEO of Gosiger Inc., a Dayton, Ohio, machine-tool distribution company, says that external conditions necessitated her company's growth. She was a housewife in 1972 when her brother died, and she decided to step in and run the business their father had started. Gosiger was doing \$2 million in annual sales when she took over; today, annual revenues are \$55 million, with most of the growth coming in the past six years through acquisitions of the assets of two other firms and expansion to Cleveland, Philadelphia, and Orlando.

Gosiger needed to grow in order to serve larger customers, weather economic downturns, attract capable employees, and make the transition from manual to computer-controlled equipment.

"Nothing stays the same," says Ha-





PHOTO: T. MICHAEL REZA

**Onetime housewife Jane Haley** took over the family-owned machine-tool business and nurtured it to \$55 million a year.

ley, 59. "You get larger or you get smaller. I decided I'd rather be a cog in a large company than just be totally supreme in a small company."

Lynn Wilson says that she could have decorated homes had she stayed small. "But do you think a Disney is going to hire me if I'm a part-time person, a one-man show?"

Karen Kennedy started her company at home. "What changed that was that I got a lot more business than I expect-

ed." She faced the choice of turning the business down or "adding employees and growing the business in accordance with what the marketplace was willing to give us. And I chose to grow the business."

Today's women entrepreneurs are beginning to belie the notion that women lack the self-confidence needed for aggressive business expansion. When Lane Nemeth, a former director of a day-care center, started Discovery

Toys, an educational-toy company based in Martinez, Calif., she knew it wasn't going to stay small. This year, Nemeth is expecting sales of \$85 million to \$90 million, including the sales of a Canadian subsidiary started two years ago and a joint venture begun in November with Shaklee Japan.

Now Nemeth has her eye on the world: "I think there's an Eastern European opportunity for us. I think down the road there's China, there's Korea, you name it."

Lynn Wilson, who is trained in design, architecture, and art history, anticipated the global marketplace and began to expand internationally about eight years ago.

**B**ut growth in size is not the force that drives these women. Big doesn't mean better, they often contend.

"Growing is more than growing in size," says Karen Kennedy. "It's growing in knowledge. It's growing in the ability to do what you do better. It's growing in a lot of ways." She says that doubling the number of employees wouldn't mean that KSK would be twice as good. "It would be just twice as big. I don't think it would necessarily be twice as profitable."

Says Lynn Wilson: "My progress really has been generated not by a quest for money or a quest for being bigger but really a quest for being better. My progress has really been a demand that I made of myself to always do something that challenged me and

## For More Information

If you're a woman looking for information and support in growing a business, these organizations can help:

- National Association of Women Business Owners, 600 South Federal St., Suite 400, Chicago, Ill. 60605; (312) 922-0465. NAWBO has 43 chapters nationwide. Its annual conference in Los Angeles, July 12-15, includes sessions on growth strategies for small and medium-sized businesses, including international business opportunities; and mergers and acquisitions.

- The Chief Executive Officers Club, 180 Varick St.—Penthouse, New York, N.Y. 10014; (212) 633-0060. CEO

Clubs, which offer programs that enable CEOs to learn from one another, are located in Boston, Washington, Chicago, Dallas, New York, San Francisco, Los Angeles, and Pittsburgh. To qualify, you must be a CEO of a business with more than \$2 million in annual sales. Membership is by invitation, and annual fees run about \$1,000.

- The Executive Committee, Suite 206, 3737 Camino Del Rio S., San Diego, Calif. 92108; 1-800-274-2367 (Ask for Cher Neels). TEC groups consisting of nine to 14 chief executives meet one day a month; their goal is to help one another be more effective in running their businesses. There are TEC groups in major cities across the country; members usually have more than \$2 million in annual sales. Cost is \$7,600 a year.

- American Woman's Economic De-

velopment Corp., 60 E. 42nd St., Suite 405, New York, N.Y. 10165; (212) 692-9100. AWED offers programs on starting, managing, and expanding businesses.

- Office of Women's Business Ownership, U.S. Small Business Administration, 1441 L Street, N.W., Room 414, Washington, D.C. 20416; (202) 653-4000. SBA regularly offers programs of interest to women business owners.

- National Association of Black Women Entrepreneurs, P.O. Box 1375, Detroit, Mich. 48231; (313) 341-7400. NABWE aims at helping members from start-up through growth and expansion.

- The National Association of Female Executives, 127 W. 24th St., New York, N.Y. 10011; (212) 645-0770. NAFE has 200,000 members.



## COVER STORY

made me grow as a creative spirit, not as a financial magnate."

Women become business owners not only by starting businesses but also, increasingly, by succeeding parents or other relatives in family-owned businesses. Many of these companies already will be sizable firms when the women take over.

Examples of such successions include the \$300-million-a-year Syms discount clothing chain in New Jersey, where founder Sy Syms' daughter, Marcy, is the designated successor. Another is the \$170-million-a-year Tootsie Roll Industries Inc., where Melvin Gordon and Ellen Gordon, chairman and president, respectively, expect to pass control to their four daughters.

Whether women successors will bring the same injection of energy, growth, and new direction that male successors have so frequently brought to their companies remains to be seen. But Jane Haley, in expanding Gosiger, already has demonstrated her vigor and ability. And so have other women. In his book *The Hero's Farewell*, Jeffrey Sonnenfeld notes that when Barbara Pearce joined her father's New Haven, Conn., real-estate-development firm, H. Pearce Co., in 1981, annual revenues were \$37 million. Five years later, they were \$200 million, a growth that Pearce's father attributes to her.

**T**he drive to take a company to the stratosphere—or the determination not to—is not a sex-related characteristic. If some women don't wish to grow their businesses, neither do some men. Consultant Kathleen Wiseman says: "I have heard men say, 'The business is just the right size. I don't want it any bigger. I earn enough money. It's doing just fine. I can't take it to the next level. I don't have the ability, nor do I want to get the ability.'"

Are women's business agendas different from men's? The Wharton School's Edward Moldt doesn't think so. But he does say that women's approaches to running their businesses are different from men's in ways that can make women far more successful than men as CEOs. He explains: "Women's attitudes about team building and consensus and so on are much more geared to leading through the growth stages of businesses than men's are. Men are still very autocratic. That's not working nearly as well as it used to work."

Women, he says, are more willing to allow people to be involved in decision making and are better able to deal "with other people today who, very frankly, don't want to be bossed around." Many men, even young men,



PHOTO: T. MICHAEL KEZA

## Home-Based And Still A Business

She was the marketing vice president of a \$2.5-billion-a-year real-estate sales company in the Washington, D.C., area. But, fed up with the politics and bureaucracy of corporate life, Kim T. Gordon quit the fast track two years ago and started her own business, Marketing and Communications Counsel, at her home in Silver Spring, Md.

Gordon says she used to think that corporate success would make her happy. But, she says, "I found that I was spending so much less time doing what I thought was fun, which was the work. I wasn't loving it anymore."

In her own business, Gordon, 35, offers clients strategic planning services in marketing and communications, and she contracts with others to implement the plans. Instead of taking a commission or a markup on the work that her subcontractors or "affiliates" do, she charges a flat fee ranging from \$5,700 to \$9,000 for the initial plan and then \$95 an hour for her services as coordinator of the implementation. "Companies used to charge hundreds of dollars an hour for my services," she says.

Her fee structure saves her clients about 40 percent of what they would have to pay under more customary payment systems, Gordon says. In her first full year of business, she made \$15,000 more in personal income than she had made as someone else's employee.

Setting up shop at home was a decision made possible by technology. With a computer and other electronic tools, Gordon says, she can do "what traditionally would have taken myself, a per-

**Corporate dropout** Kim Gordon wants managed growth for her home-based marketing consulting company.

sonal secretary, and a marketing assistant to do."

Working from home was not dictated by domestic concerns. Gordon has no children, and her husband, Stephen Mizner, media director for an advertising agency, is a gourmet cook.

She calls it "so unfair" to measure businesses primarily by the size they achieve. "We [women] don't have the same way of measuring our success," she says. For her, success means "delivering a very high quality product to my client, feeling great about it, watching them reap the rewards of it, and also having a personal lifestyle that I enjoy. If I can do that and make money, that's what it's all about."

Gordon, whose company is a sole proprietorship, aims at growth of about 10 percent a year and expects that eventually she'll have a staff of perhaps four people. "I think this company has to grow like any other, but I never want it to be big."

Gordon is sensitive to criticism that women are creating jobs for themselves, not creating businesses. Says she: "I have created a business with a business plan, with business goals, with an ongoing marketing program, with professional signed agreements with other companies, and with ongoing contracts with clients." She expects revenues of \$80,000 to \$100,000 this year.

And, as her business grows, she says, she's not going to move to a location outside her home. "I'm going to buy a bigger house."

—Sharon Nelton





Moldt adds, still "act like master sergeants."

Nonetheless, some women do think that not only their management styles but also their agendas are different. Roxanne Givens says that women are concerned more with "public service and service above the self." She was a 23-year-old social worker in 1974 when her father, who had founded Legacy two years earlier, died of a heart attack. She took over two weeks later. She describes herself as a "change agent" and likes knowing that she has created jobs with salaries exceeding \$30,000 and has provided affordable housing for senior citizens.

Lane Nemeth says she thinks of Discovery Toys as a "women's company." It has provided business opportunities with flexible schedules for the 20,000 "independent educational consultants" who sell the toys—most of them women with family considerations, a few of whom make \$250,000 a year.

Being a wife and mother herself, Nemeth sets an example for the rest of the company. "I will not, if I can avoid it, work on weekends. I do not work till 9 or 10 o'clock at night. I have a daughter. She needs me. And I have a marriage that I want to keep together."

Nemeth says family is her first priority, and she expects that her employees' families will be their priority.

**T**here is some speculation that women will start and grow their businesses later in life than men do, after the bulk of child-rearing or other early life-cycle responsibilities are over. Liz Claiborne Ortenberg was 46 when she and her husband started Liz Claiborne. Jane Haley was in her early 40s when she took over the family business. Lynn Wilson says that most of the growth of her company has taken place in the past eight years.

It is virtually certain that women will grow their businesses and that this growth will involve innovations that will change the way business is done. If you are a business woman faced with the need to grow, these ideas drawn from women entrepreneurs' experiences can help you:

**Be totally committed.** Running a business is like a marriage, says Lane Nemeth. "There are so many days that you want to walk away from it. There are so many obstacles, and there's so much that goes wrong." (Nemeth went broke more than once during start-up; last year, she was sued by a group of minority investors in a case that is still in court.) It takes total commitment to get through the bad days, she says, and you'll find that other days, like husbands, can be wonderful.

**Have a vision or a mission.** "You have to be very centered in what it is you're trying to do," says Nemeth. Designer Lynn Wilson says her vision was to be "involved in the best projects" and to do so on a global scale—a vision she has certainly achieved.

**Monitor not only the bottom line but yourself as well.** Lynn Wilson says she uses air-travel time to reflect not only on the progress of the business but also on her own progress, in order to identify obstacles or to find ways to improve herself. "Be on the edge, and don't get lazy. Do better than you think you can do. Make yourself do it."

**Mix with other business women, and join trade groups.** Roxanne Givens says she operated with a "ma-and-pa mentality" until the early 1980s, when

Mason University, in Fairfax, Va. The board consists of CEOs from companies both larger and smaller than hers. "One of the members is a man who has supervised 6,500 to 7,000 employees, and I certainly can learn a lot from that person," she says.

**Prune and pare.** This is one of the hardest jobs in making a company grow, but you have to ease out the people who can't grow with you. "We never do it quickly enough," says Nemeth, who says employees usually know when they're not doing the job. Their self-esteem goes downhill, and nobody wins. "So it's not just for the



**Roxanne Givens develops housing.** At the Yorktown Continental Towers, in Edina, Minn., she talks with residents Helen Honkala and Elfreda O'Rourke.

she became active with the National Association of Women Business Owners. Instead of operating in isolation, she found she could learn from other women. "We didn't have to re-create the wheel over and over and over."


**Put some people outside your company on your board, and make use of your board.** Jane Haley's board includes heads of large corporations, a lawyer, and a management consultant. "I need someone to report to on a regular basis who can say whether I'm moving in the right direction or not," says Haley. Having a board also imposes discipline, making you keep on top of things and helping you see the business as an outsider would.

**Join someone else's board.** Karen Kennedy is on the board of directors of the entrepreneurial center at George

corporation's sake but really for that person's sake."

With ideas such as these and the drive to succeed, how can a woman miss?

Last January, Roxanne Givens changed the name of her company, formerly called Rainbow Development, to Legacy Management and Development. "Legacy" symbolizes two things, she says: the legacy her father left her when he died and she took over the fledgling business, and the legacy that she wants to leave her 5-year-old daughter—a sense of "I-can-ness." It is, she says, the sense of "being able to move the mountains and the sense of freedom to do whatever it is you feel you can do." ■

 To order reprints of this article, see Page 53.



# Benefits Update

*Trends and developments that will keep you current in the field of employee benefits.*

By Roger Thompson

## HEALTH INSURANCE

### Beware Of Scams

Small companies desperate to find affordable health-insurance plans should be alert to potential problems if they are considering self-funded, multiple-employer health plans.

The plans are known as MEWAs, or Multiple Employer Welfare Associations. They also are sometimes called METs, or Multiple Employer Trusts. These plans attract small companies with cut-rate health-insurance premiums. But they often collapse or vanish when it's time to pay out big claims.

The self-funded plans most likely to run into trouble are those that lack reserves and rely entirely on premiums to pay claims.

When the claims exceed premiums, they have no further resources.

In one Texas case, a MEWA promoter left a medical plan with \$7 million in unpaid bills. A pair of MEWA promoters operating in California, Texas, and Florida left over \$10 million in unpaid claims.

"In reality, many of these plans are nothing more than sophisticated pyramid schemes, in which the ability to pay the claims of existing participants depends on the ability to attract more and more participants and thereby obtain more and more premium dollars," Sen. Sam Nunn, D-Ga., told a Senate Permanent Subcommittee on Investigations hearing on the MEWA problem in May.

Nunn, the subcommittee's chairman, said that "ambiguity over the exact jurisdictional boundaries between the states and federal government" has created a legal environment in which fraudulent MEWAs exist in a "twilight world" of regulation.

MEWA promoters maintain that a federal law, the Employee Retirement Income Security Act (ERISA), exempts them from state regulation. But Department of Labor officials say there is no such exemption.

"Congress amended ERISA in 1983

to make clear that states would be free to regulate these programs under their insurance regulations," Assistant Labor Secretary David George Ball told the subcommittee.

Whatever was intended by the 1983 amendment, the language used was unclear and created confusion over exactly what states could do to regulate MEWAs, said James E. Long, North Carolina's commissioner of insurance and vice president of the National Association of Insurance Commissioners.

The result of this confusion has been a proliferation of health-insurance scams that have gone virtually unchecked by either the states or the federal government until fairly recently. No one knows the number of problem MEWAs, however, or even how many MEWAs exist nationwide.

Under pressure from the states to help crack down on fraudulent MEWAs, the Department of Labor over the past

year has launched 60 investigations. And Labor Secretary Elizabeth Dole in May wrote to all state insurance commissioners "emphasizing their authority to take action against MEWAs and underscoring our commitment to take effective, coordinated enforcement between the department and the states."

Dole also has proposed legislation that would require MEWA promoters to file registration documents with the Department of Labor, making it easier for states to locate promoters and enforce their own insurance laws.

Meanwhile, law-enforcement officials recommend that small companies be on guard against self-funded, multiple-employer health-insurance scams.

Before buying a multiple-employer plan, research the MEWA thoroughly, ask for the plan's financial statement, press your insurance agent for details on what you are buying, and keep an eye on the plan once you have bought into it.



PHOTO: T. MICHAEL KEZA

Sen. Sam Nunn

## FEDERAL SURVEY

### How Many Are Uninsured?

The number of Americans who lack health insurance has been estimated by various sources over the past year at 31 million to 37 million. Now the Census Bureau has issued its own figure: 31.5 million.

That estimate is based on survey information collected in the final three months of 1988 and reported in *Health Insurance Coverage 1986-1988*. The survey reveals that young people are more likely to be without health insurance than any other group. An estimated one-half of the 31.5 million uninsured are under age 25, a group that accounts for 37 percent of the population.

The survey also shows differences based on race and origin. While 11.7 percent of all whites lack health insurance, 20.2 percent of blacks and 26.5 percent of those of Hispanic origin are uninsured.

## RETIREMENT

### Shrinking Health Coverage

Many midsized and large companies are scaling back or canceling their commitments to retiree health-care plans.

A 1988 survey by the Labor Department's Bureau of Labor Statistics—the agency's most recent such survey—found that among those who retired before age 65, 54 percent were eligible for health benefits paid partially or wholly by their employers. In 1986, the figure was 63 percent.

The percentage of employees with employer-financed health plans that continued after the enrollee reached 65—the age when Medicare eligibility begins—declined to 45 percent in 1988 from 58 percent in 1986. The cutbacks are seen as companies' responses to proposed accounting-industry standards that would require employers to declare future retiree medical benefits as liabilities, highlighting the magnitude of such commitments.



# How To Make Yourself Judgment Proof

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- When your spouse and children should hold all the stock in a corporation. See page 235.
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- How to legally divide assets in a marriage through trusts so that the business owner's spouse becomes "judgment proof." See page 162.
- Limited partnerships can shield your interests from the reach of most creditors. See page 206.
- How to obtain a release from an IRS Notice of Levy. See page 89.
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## HEALTH CARE

## Medicare Cost Shifting

Employers, especially smaller companies, can expect to pay the price for changes Congress made last year in Medicare reimbursement procedures for doctors.

Congress took several steps to cut Medicare payments to physicians when it enacted the fiscal 1990 budget. The impact of those cuts will be felt by businesses as physicians who face a significant loss of income from Medicare patients seek to compensate by raising costs for non-Medicare patients, says

Resource-based relative value scale (RBRVS). While family doctors and others who provide diagnostic services will receive an increase in their Medicare reimbursements, surgeons and other specialists will receive lower reimbursements, thus creating pressures for cost shifting in those areas.

RBRVS, which takes effect Jan. 1, 1992, bases the relative value of each procedure on work involved, practice expenses, and malpractice costs. The present system is based on "customary, prevailing, and reasonable" charges.

**Volume performance targets.** Each year, Congress will attempt to restrain the growth rate of doctors' Medicare claims by setting a target growth level. The purpose of these targets is to prevent doctors from increasing the volume of claims to offset reduced payments.

The growth target for fiscal 1990, which ends Sept. 30, is 9.1 percent over last year's

claims. Congress has threatened to cut reimbursement levels if the volume of claims greatly exceeds the target.

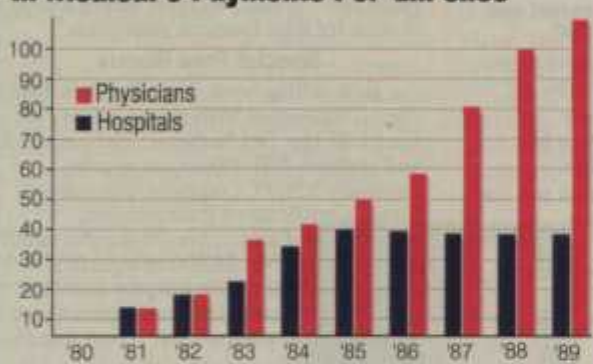
**Limits on balance billing.** Physicians who do not accept Medicare's allowance for procedures as full payment for their services may bill the patient for charges in excess of Medicare reimbursement. The maximum additional charge will be 25 percent of the Medicare reimbursement in 1991, 20 percent in 1992, and 15 percent thereafter.

**Crackdown on overpriced procedures.** Medicare will trim reimbursements for certain procedures that once were considered complex but now are relatively routine.

**Physician ownership of facilities.** To prevent possible conflicts of interest, physicians must disclose their financial interests in medical laboratories, and they are barred—with few exceptions—from referring their own patients to those facilities.

In Ginsburg's view, the effects of reduced reimbursements under the new payment formula cannot be estimated precisely, but he rejects the idea that "physicians will offset decreases dollar-for-dollar."

### Percentage Increases Since 1980 In Medicare Payments Per Enrollee



Source: A. Foster Higgins & Co.

Thomas R. Burke, a principal in the Washington, D.C., office of the A. Foster Higgins & Co. benefits consulting firm. "We can expect a virtual tidal wave of cost shifting—starting within the next 12 months to 24 months and accelerating well into the future," says Burke.

"Small companies will be the biggest victims of cost shifting" because they are the least able to negotiate cost-cutting health-insurance packages with doctors, he adds.

Paul Ginsburg, executive director of the Physician Pay Review Commission, which recommended the Medicare payment reforms to Congress, maintains there isn't enough research to show that cost shifting will result from the recent changes in Medicare law.

Burke, on the other hand, notes that since 1985, when Medicare effectively limited payments to hospitals, physicians have shifted care to outpatient clinics that are not subject to Medicare's rules on hospital cost containment.

As a result, Medicare payments to doctors have continued to escalate while payments to hospitals have remained relatively level since 1985.

Burke cites five changes in Medicare payment procedures that he says will propel cost shifting to employers:

## CHILD CARE

## Vanishing Tax Breaks

A controversial child-care bill passed by the House contains a little-noticed provision that would phase out dependent-care tax breaks for "highly paid" couples and individuals.

The impact of the provision would be devastating for employer-sponsored dependent-care programs, warns the Employers Council on Flexible Compensation, a Washington, D.C.-based advocacy group on behalf of cafeteria benefit plans. A recent poll of ECFC members indicated that half would cancel their dependent-care programs if the child-care bill becomes law.

At issue are new restrictions on eligibility for tax breaks under either an employer-sponsored dependent-care flexible spending account or through the federal dependent-care tax credit. The flex-spending accounts are savings accounts to which an employee contributes pre-tax dollars. An employee then withdraws the funds to pay for child-care expenses. Both the flex accounts and the tax credit would be phased out once a couple's adjusted gross income exceeded \$70,000, or an individual's exceeded \$35,000.

Under the child-care bill, the \$5,000 annual cap on flexible spending accounts would be reduced by \$250 for each \$1,000 in adjusted gross income exceeding \$70,000. Thus the child-care tax break would be eliminated for couples earning more than \$90,000 (\$45,000 for an individual).

A similar phaseout would apply to the federal dependent-care tax credit. The new restrictions would take effect Jan. 1, 1991.

Ken Feltman, the ECFC's executive director, maintains that the proposed restrictions would hit middle-income, two-earner couples "who have the greatest need for child care." Says Feltman: "This provision was put in the bill without hearings and without debate. We feel that the change is significant enough that there should be hearings and debate—at the very least."

Whether the restrictions become law depends on what happens in a Senate-House conference committee. A Senate version of the child-care bill does not alter the current dependent-care tax breaks. It is up to the conference committee to reconcile differences between the two bills.

Whatever the committee comes up with may be vetoed by the president, who opposes the main thrust of both bills—new federal grants for child care, and standards covering health and safety matters in child-care centers. ■



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## FINANCE

# Small Firms' Credit Crunch

By Joan C. Szabo

**W**ayne Mansfield, president of National Aerial Advertising Inc., in North Andover, Mass., recently experienced a credit problem that nearly torpedoed his growth plans.

The consistently profitable firm, which operates planes that tow advertising signs, had embarked on a major expansion when its bank withdrew a loan commitment. Mansfield had al-

relatively widespread as banks and other lenders across the country significantly reduce their commitments to small and medium-sized businesses. The recent credit squeeze is creating enormous problems for the many smaller firms that depend on loans from local banks for survival and growth.

Because of the vital role small firms play in the economy, some analysts worry that credit could become scarce

*Lenders concerned about economic trends and tighter regulations are clamping down on credit for small firms.*

problem, the group found, is hurting more than just start-up companies or those that are highly leveraged. As in the case of Aerial Advertising, a number of the companies being affected by the squeeze are firmly established and profitable.

**S**mall businesses historically have had a more difficult time than large companies in landing bank loans, but the current situation, say small-business owners, is especially restrictive. Small firms have a harder time with bank lending because they generally have fewer assets and face greater risks than larger companies.

Although the credit crunch appears to be more pronounced in those regions where real-estate values have dropped, such as the Southwestern and New England states, other areas are beginning to feel its effects. Slow real-estate markets are especially affected by the crunch because banks have had to take into consideration the reduced values of properties when reviewing financing needs.

More than half the banks in a new Federal Reserve survey said they have tightened their standards for lending to medium-sized and small businesses because of concern over the health of the economy and their own loan portfolios. In addition, about 30 percent of the banks in the survey said that in the past six months, they had trimmed the size of credit lines to businesses with annual sales of \$50 million to \$250 million.

Robert Israeloff, a partner in the New York accounting firm of Israeloff, Trattner & Co., says he has detected a dramatic change recently in the lending practices of banks in the New York metropolitan area, where his firm advises some 1,300 closely held businesses. "In the past, banks were literally shoveling money at our clients," he says. "Now when we go to bankers with business people who are credit-worthy, lenders reject them or don't give them as much money as they need."

Small businesses not only have difficulties obtaining loans but also face several other credit-related problems. Some small firms report that banks are capping or suspending lines of credit and renegotiating the terms of credit



PHOTO: © RICK FRIEDMAN-BLACK STAR

**Expansion plans** at Wayne Mansfield's aerial-advertising firm were grounded temporarily by the credit squeeze affecting small businesses.

ready spent \$200,000 of his personal funds and was suddenly faced with \$150,000 in bills for work on a new hangar and office. National Aerial, launched 43 years ago by Mansfield's father, employs 10 people full time and uses a network of part-time subcontractors.

When promised financing for the expansion vanished, Mansfield began searching for another bank that would lend him money. He says he spent more than six weeks trying to find a lender, and just recently he located one willing to provide funds.

Mansfield's predicament is becoming

enough to drive the U.S. economy into a recession. Small firms account for roughly half of the country's production of goods and services and most new jobs.

A nationwide survey of small-business executives documents the widespread nature of the credit crunch. The survey by the Private Companies Practice Section (PCPS) of the American Institute of Certified Public Accountants found that fully one-third of the small businesses interviewed were being squeezed by the cash crunch. PCPS is a group of 6,000 leading CPA firms that serve privately held businesses. The



## FINANCE

lines, which often can result in a reduction of available cash for operating purposes.

Moreover, lenders are reappraising the value of collateral given for loans, many are requesting additional security to back previously made loans, and companies that once were considered credit-worthy are now finding they cannot obtain capital.

John Gould, executive director of the Boston-based Associated Industries of Massachusetts, says that more than 225 companies in his state report credit-related problems. The difficulties include reductions in revolving credit lines, dramatic increases in costs of fixed lines of credit, and demands for immediate payment of bank loans.

In some cases, credit terms for business loans are simply too expensive. Barbara Haas came to that conclusion when she tried to borrow money for her firm, Pension Parameters Inc., a 20-year-old New York actuarial consulting business that administers retirement plans for small businesses. Haas, chairman and president of the company, says she found it more affordable to take out a home-equity loan on her beach property. "I could not live with the terms offered on a business loan," she says. "The rates being charged eat away at any profits that I can earn from my business."

What's behind the recent credit squeeze? Many analysts point to the stiffer standards being enforced on bankers by federal examiners in the aftermath of the savings and loan crisis. In addition, slower economic conditions also are prompting more caution by bankers.

Regulators have forced many banks to boost their reserves for loan losses and to downgrade the value of loans that the regulators might have considered acceptable in the past. As a result, bankers are reducing their lending to smaller firms and to real-estate developers whose properties have dropped in value.

William K. MacReynolds, director of financial and monetary affairs for the U.S. Chamber of Commerce, explains how a tougher regulatory climate affects small companies: "In some cases, bank examiners are bringing into question the collateral of the borrower. The regulators are suggesting to banks that the terms of the loans need to be re-evaluated, and this often means that more collateral or more personal guarantees are needed behind the loans. Many small-business people have put

up real estate as collateral for their loans. Since the real-estate market in certain areas is weak, a number of these loans are being brought into question."

**A**t a House Small Business Committee hearing on the credit crunch, W. Gene Garrison, vice president of the Independent Bankers Association of America and chairman of the Board of First National Bank in Alice, Texas, said that banks in



PHOTO: T. MICHAEL KEZA

**Texas firms have special credit problems, says W. Gene Garrison.**

Texas face a special problem involving the use of "collecting banks" by purchasers of failed banks and thrifts. The Independent Bankers Association represents 6,300 community banks across the country.

Under the collecting-bank arrangement, the purchaser of a failed bank or thrift can put unwanted assets, such as outstanding loans, into a collecting bank. Collecting banks are set up not to extend credit but strictly to collect outstanding loans. The loans that are placed in collecting banks need not be in default; they can be performing loans. Nonetheless, placing a loan in a collecting bank can create significant problems for the borrower, particularly one who depends on revolving lines of credit. A company may be in the middle of a building project, for example, when its loan is sent to a collecting bank and it finds it can't obtain funds to complete the project. Garrison says that a loan that has been sent to such a bank can become tainted in the view of other institutions in the community, which then become reluctant to acquire the loan.

For many bankers, however, the influences of regulatory developments are viewed as secondary to a more traditional reason for the credit crunch—a

weaker economy that is causing lenders to tighten credit to smaller companies, particularly those without a repayment history that supports extension of credit. Says Frank Mynard, chairman of the American Bankers Association's Small Business Committee, "Banks may be turning down loan applications because the loans seem to be riskier, particularly if we are headed into a downturn." The tightening, he says, "is more in response to what we see as changed economic circumstances."

Stephen Steinbrink, deputy controller for multinational banking of the Office of the Comptroller of the Currency (OCC), told the House Small Business panel: "The supervisory standards of the OCC have not changed; it is the economic environment in which those standards are applied that has changed. A soft real-estate market or a weak local economy offers fewer opportunities for sound bank loans. Bank supervisors cannot alter that fact."

Nevertheless, there is growing concern in Washington over the adverse implications that a credit squeeze could have on the economy. The government's three top banking regulators recently urged banking-industry leaders not to reduce lending to businesses because of real-estate-market problems and regulatory tightening. The three officials—Federal Reserve Board Chairman Alan Greenspan, Comptroller of the Currency Robert L. Clarke, and Federal Deposit Insurance Corp. Chairman L. William Seidman—asked the bankers not to overreact to the tough standards being enforced by banking examiners. Whether banks heed the federal banking officials' request remains to be seen.

Looking ahead to possible solutions, the Chamber's MacReynolds says the Federal Reserve should allow the economy to grow at its full potential to maintain credit worthiness. He says the Fed's high-interest policy, in effect for the past two years, has led to a general economic slowdown that has adversely affected credit availability.

In addition, MacReynolds believes reforms in the financial-services industry could help prevent future credit squeezes. Next year Congress is expected to begin considering various proposals to reform the current deposit-insurance system and to alter the structure of the financial industry. These reforms could help boost the availability of credit to small firms, he says.

Under current regulations, small



businesses are considered banks' riskiest customers, MacReynolds says. "If, however, deposit insurance and financial regulations are altered in such a way that banks respond more to the economy than to regulators, this will mean that small businesses won't be in such an inferior position when it comes to obtaining credit."

The details of the reform proposals are still being considered. By next February the Treasury Department is expected to produce a study examining all types of deposit-insurance reform, in-

cluding ways to privatize the system.

In the meantime, small-business people face a difficult time when they try to obtain capital. For many, the traditional source of long-term financing remains the nation's banks. Yet there are other possible sources small firms can try to tap.

Friends and relatives make up an important source of start-up funds for many small-business people. In addition, a number of wealthy individuals, often called "angels," provide small firms with capital, as do traditional ven-

ture-capital firms. States also have established small-business financing programs to promote economic development. A substantial number of them now offer some sort of venture-capital and loan-guarantee programs.

Considering the implications of a continuing credit crunch on the economy, MacReynolds says, the outlook is not encouraging. Without some easing of the current squeeze, he says, "economic growth won't be nearly as robust because a good deal of this growth is generated by small businesses." ■

## "Niche Banking" Helps Small Firms

"I just couldn't understand it," Phoenix manufacturer William Boren says in recounting how his longtime bank told him to accept a 50-percent cut in his credit line or take his business elsewhere.

The ultimatum followed an ownership change in which the local bank that had helped him start his steel-rod company and expand it into a \$50-million enterprise was taken over by a New York bank.

Just as Boren received this dismaying notice, he received an invitation from the First Business Bank of Arizona to meet its management and discuss his banking needs.

Today, First Business Bank of Arizona provides Boren with a \$500,000 revolving line of credit. It jumps to nearly \$1 million for cash flow during particularly busy periods, such as when his company, Arizona Rebar, is working on a highway-department job or on a contract with the Army Corps of Engineers. The bank has "really gone overboard to help us," and it now has all of his commercial as well as personal banking business, Boren says.

Although many banks—feeling increased regulatory pressures and concerned about economic trends—have instituted credit tightening that has pinched small firms, some banks are finding a competitive edge in lending to small firms. These banks, now in about a dozen U.S. cities, serve specialized markets that other banks generally don't target as aggressively; it's called "niche banking."

Jack Wertheim, president of First Business Bank of Arizona, says his bank opened in April 1985 with \$4.5 million in assets to serve "emerging" com-

panies. Most loans by Wertheim's bank are for \$300,000 to \$700,000. Loan losses amount to 1.9 percent of the bank's loan portfolio—"higher than we'd like, but lower than the competition," Wertheim says. The bank, now worth \$47 million, was bought recently by Valley Capital Corp. of Las Vegas.

In these times of scarce credit for smaller firms, word of a helpful bank spreads quickly. Niche banks generally don't have to advertise. Grand Bank, in Grand Rapids, Mich., relies on commu-

\$5.5 million in capital from investors. "We told the investors we'd be a \$25-million bank at the end of the third year," he says, "and here we are today at \$54 million."

Despite this energetic growth, Grand Bank wants to stay small and accessible to its small-business clients, whose loans average about \$80,000, Stoddard says. "We don't have loan committees. We've told people we can make a decision on the spot, as long as they bring in adequate financial information."

The Bank of South Carolina, in Charleston, focuses on small, local, service-oriented firms, says Hugh Lane Jr., the bank's president. The \$50-million bank stays away from "speculative" real-estate loans, he says, keeping its loan average at about \$65,000.

At the Commerce Exchange Bank in Cleveland, President John Ringenbach says 90 percent of commercial clients are businesses with sales below \$10 million a year and with a total credit need of \$200,000 to \$400,000. The bank opened in March 1986 with \$3 million, and now it has \$85 million in assets. He says the bank likes to help the "small business that's survived the first couple of years of its life cycle."

The most common complaints leveled at bankers by business owners, Ringenbach says, have to do with officers who don't understand their clients' businesses, the high turnover among loan-staff members, and inability to get answers to loan requests.

But niche-bank officials say their banks are designed to smooth out those problems. Says Grand Bank's Stoddard: "Every bank in Grand Rapids has a private-banking department, but oddly enough, I don't feel that that's our competition. Our competition is inertia. Getting people to change over is our biggest challenge."

—Bradford A. McKee



PHOTO © JEFF TUPPING

**Jack Wertheim's Arizona bank serves emerging companies.**

nity "gatekeepers"—attorneys and accountants—for referrals, says its president, Charles Stoddard. For exposure, the bank often hosts receptions on behalf of local professional firms.

Grand Bank targets four markets: professionals, executives, senior citizens, and small businesses. "We're clearly a niche bank," says Stoddard. "Our thing is not to be the biggest bank in town but to provide the best personal service." The bank opened in 1987 with



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## TECHNOLOGY

# Calls By Computer

By Jill MacNeice

**M**ichael Odza—editor, publisher, chief correspondent, and head sales representative of *Technology Access Report*—started his newsletter two years ago with the classic entrepreneur's dilemma: how to handle the day-to-day operations of his fledgling business while traveling extensively for the firm.

"I cover 50 conferences a year, and when I'm on the road, I can't afford to play telephone tag," says Odza, whose newsletter, which is published 18 times a year, is devoted to the transfer of new technologies from the laboratory to the marketplace. "Also, I wanted my correspondents to be able to reach me wherever I go, without my having to be physically present."

Jill MacNeice is a writer in Washington, D.C.

The solution: Odza subscribed to one of the several electronic-mail services for businesses and professionals. E-mail, as the services are called, uses computers for high-speed, low-cost, round-the-clock communication. When users call their service, they gain access to their computer mailbox.

Because E-mail is electronic, reception is as instantaneous as a telephone call; because it's computerized, whole documents can be moved, stored, and examined later. Furthermore, the E-mail company processes the signals before they reach the mailbox, so software compatibility is not a concern.

In addition to sending messages, E-mail can be used to transfer computer files, including spreadsheets, database files, and address lists. It also can be used for electronic data interchange (EDI), an automated form of ordering

*With electronic-mail services, any message—a quick sales order, a thick report—can be sent as fast as a phone call and stored for a later look.*

and inventory control. It can even be used for telex and fax.

Providers may be hooked into various computer databases, giving users access to up-to-the-minute news and financial information, credit reports, airline schedules, electronic banking, and even home shopping.

E-mail service is so efficient that it allows Odza to operate his newsletter, which is headquartered in Inverness, Calif., with only two full-time employees—himself and a business manager. "I couldn't have begun my business without it," he says.

Large corporations have known about electronic mail for the past 20 years. The recent expansion of services offered by E-mail has made it more attractive to both small and large businesses.

In fact, there are currently 8.6 million

## The Writing On The Wall

Computer bulletin boards were once the exclusive realm of nerds and hackers, a place where members of the electronic underground could exchange information, share software, and communicate informally. Now companies are discovering that bulletin boards can be valuable additions to their business.

"The electronic pen pals you develop on-line usually lead to some kind of business. I've made a lot of terrific contacts by bulletin board," says Ken Love, whose Chicago-based Image Resource Inc. distributes commercial photography, graphics, and print worldwide. He spends \$650 to \$2,000 a month on bulletin-board communications.

Electronic bulletin boards are like cork boards in the local supermarket—except that you use a computer and a modem instead of paper and thumbtacks. And, just like the traditional boards, anyone can read the messages posted on them. In contrast, electronic-mail services assign private mailboxes to individual users.

There are numerous bulletin boards

around the country—and even around the world. While most are independent, "mom and pop" bulletin boards, commercial database companies such as Prodigy Inc. and CompuServe also offer them. Bulletin boards are often organized around a particular interest, such as type of software, a leisure activity, or a professional group. Conver-



PHOTO: ©COMPUERVE

sations develop among the like-minded users. These relationships can often turn into valuable new business.

Commercial bulletin boards actively discourage business prospecting and soliciting. "We want the bulletin boards to be a valuable forum for exchange. You can't advertise services on Prodigy," says communication manager Brian Ek. "We monitor messages and will tell the sender if we reject it."

Five years ago, Love met Takahiko Fukawa, a top Japanese public-relations executive, through a bulletin board. Today they are business partners. Also through CompuServe's bulletin boards, Love has been able to meet—and do business with—Jim Radford, an executive of the 3M Corp., and Lambert Mayer, whose company, the Paris- and Montreal-based TRIM, distributes press materials to international wire services and newspapers.

Aside from making contacts, bulletin boards can also become important to a company's daily business. The Language Exchange Inc., a language teaching and translation service based in Washington, D.C., discovered that a bulletin board makes it possible to handle increasing amounts of work without an expensive investment in staff and equipment. Tom Estrada-Palma, vice president of data communications for the firm, estimates the company can handle 10 times the business with a bulletin-board system.

Translators dial in to the Language Exchange Bulletin Board to pick up documents that have been scanned into the system for them. They make their translations and send them back to the bulletin board, where the documents are then edited, proofread, typeset, or sent directly to the client.



## TECHNOLOGY

E-mail boxes in use, making it a \$5.4-million-a-year industry, according to *EMMS*, a periodical on electronic mail and micro systems. Small businesses are turning in increasing numbers to electronic messaging technology to solve their communication problems. According to Ken Bosomworth, publisher of *EMMS*, well over half a million small and midsize companies use the technology.

**W**ith its extensive capabilities, electronic mail is convenient for any business person who travels—from executives and contract negotiators to sales personnel—because it allows users to place an order immediately, even if they're three time zones away and the office is closed. Businesses with branch offices, distant contractors, and far-flung operations may also find that electronic mail offers an affordable alternative to telephone and mail service. And it makes sense for any company whose communication with suppliers or customers could be in the form of a computer file. A company can just call in and send an order to another company's electronic mailbox.

That's exactly how Carl Torstenson, buyer for Stan's Lumber Inc., of Twin Lakes, Wis., uses his electronic-mail system. It keeps him in constant communication with Central Builders Supplies, a buying cooperative in Sturgis, Mich.

Central Builders Supplies scours the country for deals in bulk purchases of construction materials and passes the information via E-mail to its 500 members simultaneously. "E-mail is very important to us," says Cheryl Bolles, the company's director of communications. "There aren't enough hours in the day for us to take as many calls as are needed to coordinate all the business transactions between vendors and dealers."

To get the best prices, members must act quickly—most deals are gone within the day, some within hours. Torstenson can place his order with one message to Central Builders Supplies' E-mail box. He also uses E-mail to scan a database of suppliers—inventories, specifications, and freight data—that Central Builders Supplies offers members.

Beyond the obvious applications, electronic mail offers users another benefit: It saves money by eliminating telephone tag, which has become an expensive, though hidden, component of business communications. According to industry observer Bosomworth, an E-mail message that costs about \$1 can eliminate \$3 to \$4 in missed calls.

E-mail is available through several



E-mail helps Michael Odza communicate without playing telephone tag.

sources. Since the companies providing it are now beginning to offer overlapping service to various sizes of business, cost may be a determining factor in the decision to subscribe to one service as opposed to another.

Despite its sophistication, E-mail is easy enough for a novice to use. It requires only a computer, a modem (which connects the computer to the telephone), communications software, and a telephone. Businesses often use a separate phone line for computer communications. Most services can be reached with a local call or a toll-free 800 number.

A subscriber can leave a message or check his or her mailbox by using the modem to dial into the system and sign on with a secret number or password. Easy-to-follow on-line menus offer help and tell subscribers what to do, so that even someone new to the service can use E-mail without trouble.

Fees and types of billing vary from service to service. Some services charge a minimum monthly fee and bill their customers for every minute of usage. This can make learning and browsing expensive. Others charge by the length of the message. Either way, users say E-mail's per-item cost is far cheaper

## Companies That Provide Electronic-Mail Service

Following are companies that provide electronic-mail services—grouped by type of service that they offer—along with phone numbers for contacting the companies.

**E-Mail Providers:** E-mail, access to databases, facsimile, telex, hard-copy delivery by the U.S. Postal Service; some have bulletin-board service. Prices are affordable for many individuals and small businesses.

SprintMail: 1-800-Telenet.

AT&T Mail: 1-800-367-7225.

MCI Mail: 1-800-444-6245.

Dialcom: (301) 881-9020.

GE Quik-Com: (301) 340-4000.

Notice: (213) 615-0311.

Connect: (408) 973-0110.

EasyLink: (201) 818-5000.

**Database Services:** Wide variety of databases, electronic shopping, E-mail, and bulletin boards; some are consumer-oriented.

CompuServe: 1-800-848-8199.

Connect: (408) 973-0110.

Delphi: 1-800-544-4005.

Genie: (301) 340-4000.

Prodigy: (914) 993-8000.

### Others:

DASnet: Communicates across networks; (408) 559-7434.

Xpedite Systems: Direct from computer to any fax machine worldwide; 1-800-227-9379.

VoxMail: This service takes an internal E-mail system and converts the message to synthetic speech; (615) 331-0275.



## TECHNOLOGY

than calling long distance or using an overnight courier.

Another approach to E-mail is to install messaging software for intracompany communications. These programs are available for personal computers, minicomputers, and mainframes, and they permit private communications and transfer of computer files with other branches of the companies.

In-house systems bring the convenience and efficiency of electronic mail to intrabusiness communications and are especially popular in law firms. Two popular packages include cc:Mail and The Coordinator.

"When we install it, internal E-mail becomes the second-most-used piece of software in the business after word processing," says Glen Filmore, president of Abacus Enterprises, a Washington, D.C., consulting firm concentrating on computer networks and software. "It becomes a hit, almost overnight, and people not on the network want to be on it because of the E-mail."

**T**o use an in-house system, a business must be—or must plan on becoming—comfortably computerized with a network of interconnected PCs. At least one of the computers should have a 20-megabyte hard disk. A consultant who specializes in local area networks can do the installation and advise on the software.

However, consultants aren't easy to find, and they're not cheap. Glen Filmore charges \$95 an hour, about average for the service he provides. And, like many in his field, he doesn't advertise but relies instead on referrals.

It's even possible to purchase special "gateway" software that links internal E-mail systems with a database service or a public or corporate provider. This arrangement gives every employee instant access to all the E-mail capabilities from a desktop computer or terminal.

The private gateway is a precursor of the next step in the evolution of electronic mail service—connecting all the big networks together. MCI Mail and CompuServe were among the first to link up, giving subscribers to both services access to nearly 663,000 E-mail boxes. Worldwide interconnectivity, as it is called, would allow a subscriber of one service to send messages to any public electronic mailbox.

No one knows when standards will be established to allow for international message exchanges across services. But interconnectivity is a priority, because, as everyone knows, the broader the access, the better for business. ■

## Working Your Way Through The Options

Here are suggestions for choosing electronic-mail options, based on the priorities of your business.

- If your priority is inexpensive, basic E-mail service for a small to moderate volume of messages, consider becoming a subscriber with a public provider. The service will cost about 40 to 60 cents per brief message.

- For contact with clients and suppliers, use the service that most of your clients, contacts, or suppliers have adopted, regardless of the type or the cost.

- For easy fax transmissions, subscribe to a fax-only service or use a provider that offers fax delivery. For heavy-volume fax, consider a fax board for your office computer.

You may need a consultant, and you may have to purchase some equipment. It can be expensive, but fax has become indispensable for some businesses.

- To make new business contacts, consider a consumer-oriented database service that has bulletin boards. It can be inexpensive and cost-effective.

- For electronic mail with the ability to link into computerized information services, make sure the provider offers databases you want. Compare on-line charges for scanning.

- If you want to keep communications private, use E-mail instead of bulletin boards, and consider an in-house system, which can be expensive to set up and may require the services of a good consultant.

- For companies that have a heavy volume of communications among divisions, the solution can be a provider that specializes in corporate communications. Consider an in-house E-mail system, and add "gateways"—software that links internal E-mail systems with a database service or a public or corporate E-mail provider.

It may be expensive, but it's cheaper than phones and couriers.

- If you want a system for communication within one office, install E-mail software on company computers. This may require the services of an expert consultant.

## Procedures And Protocols Of E-Mail Messaging

The details may differ from service to service, but all of the commercial electronic-mail providers use the same basic operating procedures. For example, here's how MCI Mail works:

- First, load your telecommunications software into your computer, and use your modem to contact the electronic-mail service through a local telephone number or an 800 number.

- Sign on with your user name and ID. The system responds with a greeting—"Welcome to MCI Mail!"—and a message from the service—"Need to exchange messages with AT&T Mail subscribers? MCI Mail can make the connection! Type HELP ATTMAIL for details."

The service also provides current news headlines and a report on the status of "Inbox"—"There are two messages in your Inbox."

- Type SCAN INBOX for information about your messages—including number, time posted, sender, subject, and size. To respond, type CREATE, and follow the directions that appear on the screen.

- Type the message in directly. It is possible to edit—insert, delete, and move words around—through MCI Mail, but the process is awkward.

Create longer messages using your word-processing software before you log on to E-mail, and then send the information through your account using your telecommunications software.

- Messages sent are stored in an "Outbox." There's also a "Desk" for older files that have already been read.

- To leave MCI mail, simply type EXIT. The computer will respond: "Call clearing requested from remote source." Also, you will be disconnected automatically after five minutes if you are not actively using the service.

- On-screen help menus are available to help subscribers scan the databases, send faxes, or use other MCI Mail services.

There's also an instruction booklet that can walk even a novice through the more complex operations.

If that fails, call the local or toll-free assistance number, and an operator will tell you what to do.



To order reprints of this article, see Page 53.





# Choose the only low cab

Why trust your business to anything less?

GMC Truck Forwards and Chevrolet Tiltmasters give you a wide range of wheelbases, GVW ratings and engine lineups to choose from.

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W4

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## TRANSPORTATION

# The Road Ahead For Trucking

By Julie Candler

**T**he lessons that business schools teach about the need to anticipate emerging trends apply as much to truck operations as to any other phase of running a company. Knowing in advance about changes can give owners and managers time to analyze such developments and respond in ways that will keep their firms competitive.

Certain trends in trucking appear likely to boost transportation costs for business. Such trends include the shrinking pool of drivers and the tightening of their licensing requirements; clean-air regulations; drug testing for drivers; tougher vehicle-inspection

ed efficiently, then U.S. competitiveness can suffer.

Here are some changes occurring in the trucking industry:

**There is a growing shortage of drivers, and new federal regulations may further reduce the pool of qualified applicants.**

The driver shortage is expected to worsen because lower birth rates have shrunk the labor pool in recent years, says Patricia Waller, director of the University of Michigan Transportation Research Institute.

Moreover, new federal rules require that by April 1992, every state must



PHOTO: ©KAT CHERNUSH

Encourage each driver to read the manual before taking the test and find out which driving maneuvers must be performed; encourage drivers to apply a month early for renewal in order to have time to re-take the test if they fail the first time.

Waller also advises employers to be certain each driver's medical certificate is current and to check the driving record of each applicant in the state where the driver was licensed.

Under a new law, a federal registry of commercial drivers is being established. Before granting a license, each state must check the registry to be certain that the applicant is not licensed in any other state. "Before the central driver registry," says Waller, "it was standard operating procedure [for truckers] to carry a pocketful of licenses. Truckers could spread their infractions over a group of states. When it all goes on one state's record, some drivers may lose their licenses."

The trucking industry is lending its support to the 5-year-old Professional Truck Driver Institute of America. Its president, Edward Kynaston, says the institute so far has inspected and certified 35 commercial driving schools in 22 states. The schools' training takes an average of six weeks and costs about \$4,000; most trainees are eligible for federal student loans. (For further information, contact the institute at 8788 Elk Grove Blvd., Suite 20, Elk Grove, Calif. 95624; [916] 686-5146.)

**State and federal regulations designed to improve air quality now affect trucks as well as automobiles.**

The most immediate change takes place with new diesel-powered trucks delivered after Jan. 1, 1991. They must meet tough federal rules on sooty-particulate exhaust.

The new emissions controls will have ripple effects on many truck components, says Bill Tracy, executive director of the Maintenance Council of ATA. Changes in gearing and rear axles, for example, will affect clutches and other components, which a truck buyer should consider when specifying components on a new purchase. "It's something buyers need to be aware of," says Tracy. Choosing the right specifications requires a certain level of knowledge of



PHOTO: ©KAT CHERNUSH

**Control centers need new technology for steering trucks around tie-ups.**

rules; and communications technology designed to help truck operators avoid traffic congestion.

The pervasiveness of trucking in all types of business operations makes it important for companies to know about—and prepare for—the coming changes in truck transportation. The U.S. trucking industry employs more people, carries more freight, and pays more taxes than any other mode of commercial transportation, according to the Motor Vehicle Manufacturers Association.

What's more, according to the American Trucking Associations (ATA), 95 percent of all motor carriers are small businesses. If trucks cannot be operat-

adhere to federal guidelines in licensing drivers of vehicles of 26,001 pounds or more gross vehicle weight (Classes 7 and 8) and drivers of trucks hauling hazardous materials.

Applicants for new or renewed licenses must pass a state-administered written and driving test. Each state's test is based on information in state manuals that are developed in accord with federal guidelines. (In most states, the test can be waived for drivers who have had good driving records for two years or more.)

Waller, who helped develop the national test standards and procedures, makes these suggestions for companies whose drivers must take the test:



trucks, he adds, but "manufacturers are already prepared to help on this."

Tracy says the durability of engines with the new controls will depend on the formulations of oils and lubrication products. Some ATA member companies supplying oil and chemicals, he adds, are making refinements in their products to accommodate the changes.

The tougher emissions standards beginning with 1994 engines will require changes in maintenance management. Oil-change intervals may have to be shortened, for example, and fuel economy will decrease, Tracy believes.

Both federal and state policy makers are evaluating alternative motor-vehicle fuels as part of the solution. California is expected to require operators of 10 or more light- or medium-duty trucks to start phasing "clean-fuel" vehicles into their fleets. Similar regulations are expected in other states, and heavy-duty trucks are certain to be included eventually.

Diesel fuels reformulated to meet the 1994 standards could cost a few cents a gallon more and could reduce fuel economy as much as 15 percent, leading to higher truck-operating costs.

#### **Drug testing of drivers could affect businesses.**

Drug testing ordered by the Department of Transportation (DOT) began last December for companies with fleets that have more than 50 drivers of vehicles weighing 26,001 pounds gross vehicle weight and above (Classes 7 and 8). In December 1990, the order will cover fleets of up to 50 drivers. Each driver must be tested every two years in conjunction with his or her DOT-required physical.

A recent ATA survey shows that less than 2 percent of tested drivers were found to be using drugs. "A somewhat higher level of potential drivers using drugs is turning up in pre-employment screenings," says Stephen Campbell, director of safety for ATA, and firms are paying about \$60 per test.

#### **Documentation of annual motor-vehicle inspections will be required.**

The federal annual inspection programs passed by Congress several years ago and carried out through DOT now cover all interstate trucks of 10,001 pounds gross vehicle weight (Class 3) and above.

Under the law, owners can inspect their own vehicles and fill out forms detailing items checked, or they can have outside mechanics do the inspections at a cost estimated by ATA of about \$50. In 16 states and in five Canadian provinces with their own programs, checks are done at state or provincial inspection centers. Every truck

must carry documentation that it has been inspected.

Random inspections also are carried out through DOT's Motor Carrier Safety Assistance Program. It provides federal funds to state agencies to conduct the inspections. This year, the program plans to have 2 million vehicles and drivers checked at weigh stations or other locations. An inspection of this



PHOTO: © ERNEST BERTCH-FOLIO, INC.

**Maintenance practices could be affected by emissions rules.**

type—the driver's condition and license, and the truck's tires, brakes, and other components—takes about 30 minutes.

DOT inspectors, says ATA's Bill Tracy, "will expect to see documents proving annual federal inspection, not only of the vehicle, but the trailer."

"They are finding a lot of things to be corrected," adds Steve Campbell, ATA's safety director.

Fines for flagrant violations can exceed \$500.

#### **New technology may be necessary for navigating through increasingly heavy traffic tie-ups.**

Every year, according to a General Motors study, delays due to traffic congestion total more than 2 billion vehicle hours for trucks and cars altogether. Those delays, some experts estimate, add up to over \$70 billion worth of lost time and wasted fuel each year. What's worse, says GM, "the U.S. Department of Transportation estimates delays will increase by a factor of four by the turn of the century."

At the University of Michigan Transportation Research Institute, research scientist Robert D. Ervin is working on

a number of possible solutions. "Vehicles trying to get through traffic are going to be dependent upon large cities investing in automatic traffic-monitoring equipment," he says. "Then some downtown control center can track all the roads. The control centers can advise trucks on selecting the right route, avoiding accidents, peak hours, and so forth."

But Ervin estimates that equipping a truck to receive such traffic advisories will cost \$500, and another \$500 per truck will have to be spent for devices to let dispatchers track a vehicle's position. For many owners with big investments in drivers' wages and in trucks, the \$1,000 could be well spent.

"A truck uses the highway to make a living," Ervin says. "If the highway doesn't work so well, the trucking industry is in jeopardy. As of 1991, Congress has declared building of our interstate highway system is over. So future stresses on the system are growing. These new technologies are being held out as a pattern for managing the systems to bring an intelligent interface between the vehicle and the road system."

Ervin says General Motors is a leader in developing such an interface. To determine if navigation and communications devices can improve use of the highways, General Motors' Intelligent Vehicle/Highway Systems program is now conducting field experiments with "smart cars on smart roads." Each experiment uses a navigation system aboard a vehicle, a traffic-control center, a two-way communications link between the driver and the center, and sensors along the highways to detect traffic densities and vehicle speeds.

"Around the year 2000," Ervin says, "perhaps a dozen major metropolitan areas will have invested heavily in the computer centers needed to regulate traffic flow. By 2010, you might see 50 metropolitan areas equipped."

As co-director of the University of Michigan's Intelligent Vehicle-Highway Systems (IVHS) program, Ervin invites owners to a conference on the subject: "We want to alert [those in] the trucking industry they have a distinct stake in this, so that the system won't become configured in a way that doesn't represent their best interests." (The conference is to be held Oct. 3 at the Radisson Conference Center, Ypsilanti. For information, call Suzanne Troen, [313] 764-2285.)

"Besides reducing road congestion," says William M. Spreitzer, GM's coordinator of IVHS field projects, "our goal is reduced emissions, improved highway safety, energy savings, and an overall boost in the nation's productivity." ■



## MANAGING

# Preventing Crime On The Job

*Here are controls you can set up to protect your company from dishonest employees.*

**W**hite-collar crime is a growing problem in today's business environment. No one knows its exact cost, but the U.S. Chamber of Commerce puts the annual tab at \$40 billion. A rule of thumb says that a company loses 1 percent to 2 percent of its sales to crimes, most involving employees.

The best preventive measures are internal controls, which make the risk of being caught so high that a would-be thief will decide that the risk outweighs the gain.

A survey of practicing certified public accountants in September 1988 revealed that 70 percent of cash frauds were carried out by employees in accounting and finance. They have direct access to cash and records. Nearly half of the frauds and by far the largest amounts involved people in positions of responsibility. Since people in such positions make up far less than half of the total work force, this finding suggests that they are more likely than low-level employees to defraud their employers. This is not so much a commentary on the relative honesty of high-level employees as it is a reflection of the fact that they are subject to fewer controls and can often override them.

Any system of internal control is designed to accomplish four general objectives:

- Authorization.
- Recording.
- Safeguarding.
- Accountability.

**Authorization.** Have all transactions executed in conformity with management's intentions. A control system includes policy directives establishing, for example, standard price lists, customer credit limits, and inventory reorder points. Require specific authorizations for large or unusual transactions such as a major purchase, the write-off of a large receivable, or an adjustment of the carrying value of an asset. Authorizations are intended to prevent transactions not in accordance with management's intentions; approvals are intended to detect them.

**Recording.** Ensure that authorized transactions are recorded at the correct amounts, in the proper accounting periods, and in the appropriate accounts; and that no fictitious transactions are recorded.

**Safeguarding.** Both direct and indi-

rect access to documents authorizing the use or disposition of assets should be limited to authorized persons under proper controls. Physical access is controlled by proper storage facilities and entry requirements, indirect access by controls over documents, by restrictions on the use of computers, and by segregating responsibilities.

**Accountability.** The first three general objectives are intended to prevent fraud (or honest mistakes). Accountability is intended to detect it. Controls intended to accomplish this objective generally involve some form of comparison: asset accountability records with the assets themselves, accounting records with the supporting documentation, and general ledger accounts with the supporting subsidiary ledgers.

Additional safeguards designed to help achieve the four general objectives of internal controls include:

**The Golden Rule Of Internal Control.** Few employee frauds involve collusion; the great bulk are carried out by one person acting alone. For that reason, the most important internal controls are those that ensure that a company maintains a strict separation of three key responsibilities: authorizing transactions, collecting or paying cash,

**Theft prevention requires controls such as limiting access to the firm's cash and outlawing sloppiness in company records.**



ILLUSTRATIONS: JERRY DADDS/EUCALYPTUS TREE STUDIO



and maintaining records.

**The Last Line Of Defense.** Even if all other controls fail, one more can often detect even the most ingenious fraud. That is a requirement for every employee to take an annual vacation, during which someone else takes over his or her duties. Most frauds require a lot of day-to-day attention to keep from falling apart. An absence of even a day or two will undo everything. That loyal employee who never misses a day of work may in fact be ripping you off.

**Management Conduct.** The white-collar criminal often has a shadowy accomplice: bad management. When policies and procedural requirements are routinely violated, when record keeping is sloppy, or when discipline is lax, would-be employee criminals often spot an opportunity for fraud. And, of course, that kind of management carelessness also breeds the inefficiencies



**Carefully monitor employees who are in positions of responsibility.**

and poor operating practices that have wrecked more businesses than fraud. For that reason, it has been justly said that fraud is a good barometer of management quality.

More important, management's ac-

tions send messages to employees. The supervisor who lugs home office supplies, the vice president who pads an expense account, and the owner who understates ending inventory on the company's tax return all send a dangerous message that moral values have no place in the organization. They should not be surprised if employees begin thinking that it is OK to help themselves to company assets. Responsibility for the integrity of a company begins and ends at the top. It cannot be delegated.

*This article is adapted from White Collar*

*Crime: Loss Prevention Through Internal Control, published by the Chubb Group of Insurance Companies and Ernst & Young. For a free copy, write to Dave Richards, Executive Protection Department, Chubb Group of Insurance Companies, 15 Mountain View Road, Warren, N.J. 07060. The handbook is also available through Ernst & Young offices.*

## Curbing Crime In The Workplace

In addition to financial crimes committed through manipulation of books and records, businesses are also victimized by direct theft of goods. The Small Business Administration offers these recommendations for curbing crimes against your business:

**Adopt a "zero-shortage" attitude.** If you feel that a reasonable write-off due to pilferage is permissible, keep it a secret, and hammer away at shortage control, even when losses diminish.

**Prosecute thieves.** Settling for restitution and an apology is inviting more theft.

**Be wary of returns and refunds.** Insist on a merchandise inspection and approval by someone other than the person who made the sale.

**Rotate security guards.** This discourages fraternization and avoids the reduced alertness that can result when

guards feel their jobs are monotonous.

**Limit pricing authority.** Permit only authorized employees to set prices and mark merchandise.

**Double-check incoming shipments.** A second check of incoming materials can rule out the possibility of collusive theft between drivers and employees who handle the receiving.

**Observe drivers.** Do not allow a truck to approach the loading platform until it is ready to be loaded or unloaded. Do not allow drivers behind the receiving fence. You can discourage drivers from illegally taking goods from the platform by installing barriers between bays, by monitoring with closed-circuit television cameras, and by stationing the receiving supervisor's desk at a spot that commands an unobstructed view of the entire platform.

**Monitor shipping and receiving carefully.** Control receiving reports and shipping orders, preferably by numbers in sequence, to prevent duplication of fraudulent payment of invoices and the padding or destruction

of shipping orders. Make sure that receiving reports are prepared immediately upon receiving a shipment. Delay can invite theft.

**Be thorough.** Make sure that every lunch box, tool box, bag, or package is inspected by a supervisor or guard as employees leave the plant.

**Control locks.** Insist that all padlocks be snapped shut on fasteners when not in use to prevent the switching of locks. Control keys to padlocks.

**Don't let trash disposal be a conduit for theft.** Do not allow trash to be picked up from areas near valuable materials. Inspect trash locations and trucks at irregular intervals for saleable items if you suspect collusion between employees and trash collectors. Supervise trash pickups.

**Don't play detective.** Owner-managers who suspect theft should not try to solve crimes themselves. Even the best business owner may botch a criminal investigation. If you suspect a theft, immediately bring in the police or professional security consultants.



# Small-Business Computing

*What's new and useful about an increasingly essential business tool.*

## PRINTERS

### A Low-Cost Laser Printer For Demanding Users

Small-business owners who have been waiting for prices of high-performance laser printers to drop need wait no longer. The new **LaserJet III** by Hewlett-Packard is more technologically advanced and prints faster and better than the former industry standard, HP LaserJet II, yet its list price of \$2,395 is \$300 lower.

The LaserJet III's scalable-typeface technology, previously available only in much more expensive machines, permits great printing flexibility. This HC PCL 5 technology allows users to print any of eight internal typefaces, or fonts, in minute increments, from a tiny one-quarter point up to 1,000 points, which is just shy of 12 inches.

Additional fonts are available in plug-in cartridge or software form.

Previously, HP and compatible laser printers accommodated only bit-mapped fonts, which are specific sizes. Consequently, users wishing to print a document in the Times Roman typeface at six different point sizes had to buy those six different sizes of the font and store them in their printer or on their hard-disk drive.

Consumers had to expend a great deal of money, time, and storage space on fonts, yet they still could be left without the precise faces and sizes they needed if they wished to change their documents even slightly.

The new HC PCL 5 technology also provides users with many sophisticated graphics effects, like image rotation and shading. And it breaks new ground in image-quality enhancement. HP's Resolution Enhancement Technology slightly varies the position and size of dots that are printed, to produce cleaner, sharper lines and smoother edges than those generated by older printers.

As a result of this technology, many more people will find standard 300-dots-per-inch laser copies good enough for flyers, newsletters, and other printing jobs.

The LaserJet III accepts an assortment of paper and envelope sizes, it can be upgraded via cartridge to accept PostScript language files, and it is supported by most software applications.

—Jon Pepper



IBM LaserPrinter E

### And Two Even Cheaper Ones For Everyone Else

Almost all manufacturers have jumped into the personal laser printer market, driving down prices and lifting performance to levels high enough to suit most small-business users. One of two new entrants is the **IBM LaserPrinter E**, a scaled-down version of IBM's superb high-end laser printer. The E,

which lists at \$1,495, prints five pages per minute. This is faster than the Hewlett-Packard machine that defines this class of printer. The other entrant is an even faster printer announced by Panasonic, the **KX-P4420 Laser Partner**. It is a desktop machine that prints eight pages per minute and is priced at \$1,695. It's probable that street prices on both of these printers will be close to \$1,000.

## MANUFACTURING

### Automation For Small Job Shops

The National Institute of Standards and Technology (a U.S. Department of Commerce agency that includes the old Bureau of Standards) has been assigned to help American industry with technology transfers.

In an unusual step, it has automated its own job shop, the NIST Fabrication Technology Division, which designs and manufactures specialized instruments for the NIST laboratories. The division employs just over 50 people in its shops.

They use a wide variety of machine tools of varying capabilities and vintages. They also do tool and material inventory and management, cost estimating, and billing.

NIST is sharing its experience with using off-the-shelf hardware and soft-

ware at reasonable cost, as well as information from a number of vendors. The object, says Adrian Moll, chief of NIST's "Shop of the '90s," is to show the potential of automation to the 85 percent of the 131,000 small job shops in the U.S. that are not automated.

The shop uses a PC network for computerized cost estimating, process planning, tool-room management, design, and manufacturing.

By using available technology, says NIST spokesman John Blair, a firm can keep costs reasonable. NIST's own shop expects to recover the costs of automation in six months.

For more information, contact Adrian Moll, Chief of the Fabrication Technology Division, National Institute of Standards and Technology, Department of Commerce, Gaithersburg, Md. 20899; (301) 975-6504.



## WORD PROCESSING

## Help In Writing Right

If you are even slightly insecure about the quality of your personal and business communications (and who isn't?), you could find Reference Software's recently published writing program almost too good to be true.

Like most other grammar checkers, **Grammatik IV** identifies common mistakes such as misspellings, split infinitives, incorrect punctuation, and subject-verb disagreements. Beyond that, Grammatik checks for more arcane errors, including incorrect use of homonyms (their, there, they're), archaic or foreign words, sexist terms, and jargon. The program also allows establishment of a custom stylebook, which can help ensure uniformity among your firm's communications, regardless of author.

More self-assured users also will want to use a feature that evaluates the readability of their work, using standard indices and analyses, noting such things as average sentence and paragraph lengths and numbers of prepositions and passive constructions used.

Grammatik is something of a teacher, too. Plentiful are help screens explaining the nature of mistakes made and how to avoid similar mistakes in the future.

Despite its power and scope, Grammatik is easy to install and use. In fact, it operates on the fly with most common word processors, including WordPerfect, Microsoft Word, WordStar, Professional Write, MultiMate, and

XyWrite. And, with a list price of \$99, Grammatik is cheap.

Those firms doing business in Europe or contemplating expansion as a result of the EC92 process should note the recent release of a British edition of Grammatik. I haven't run this edition, but the publisher says punctuation rules, style, and spelling were changed to reflect British English.

More than 120 American phrases considered incorrect in British English were removed from the edition, says Reference Software, and more than 100 new phrases were added.

The company says work is under way on editions that will proofread documents in American or British English but provide menus and help screens in French or German.

All editions of Grammatik IV will run on an IBM PC or compatibles with DOS 2.0 or higher and at least 512K RAM. Versions also are available for network and Apple Macintosh users.

To order, write to Reference Software International, 330 Townsend St., Suite 123, San Francisco, Calif. 94107, or call (800) 872-9933.

—Albert G. Holzinger



PHOTO: CHRISTOPHER MUSHAMAHAN

## RETAIL TECHNOLOGY

## Help In Finding Retailing Software

The National Retail Federation (formerly the National Retail Merchants Association) has joined with Datapro, a supplier of various kinds of technological information, to publish the **Retail Technology Review**. It analyzes technology and trends, and it evaluates products and suppliers of equipment. The **Review** is available from NRF Publications for \$139 (\$99 for members of the federation); the phone number is (212) 244-8780.

## FOLLOW-UP

## New Personnel Policy

A major upgrade of **Personnel Policy Expert**, reviewed in Small-Business Computing in March, features several new policy topics, including Emergency Closings and Drug Testing, and recommended language revisions for some topics in the earlier version. This program automates the tedious task of writing an employee handbook. Installing version 2.20 will add to but not overwrite your existing policy files. The upgrade costs \$95, from KnowledgePoint Software, (707) 762-0333.

## HAVE A QUESTION?

## If You Are Stumped, We'll Try To Help

If you are stumped by a small-business computing question, we might be able to help.

In this column, we will answer questions that we think will apply to a substantial number of other business people.

Send your questions to Small-Business Computing, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062.

## ACCESSORIES

## Give Your Wrist A Hand

Sometimes the simplest devices do the best job.

Winston Martin has created a foam tube that grips the edge of the desk between your hands and your PC keyboard. It raises your wrists and gives them a cushioned place to rest.

If you get tired of the edge of a table cutting into your wrists, or the awkward angle of your wrists as you type, the PolyWrist-Wrest may raise your comfort factor significantly.

In addition, by keeping your



wrists straight as you type, the tube may help prevent the condition known as carpal-tunnel syndrome—though Martin makes no claims to this. The condition is a painful and sometimes crippling inflammation of a ligament, generally caused by repetitive wrist movements.

If the device prevents the condition, the price—\$5.95—is nothing for the pain saved by its use.

Contact The PolyWrist-Wrest Co., 1712 111th Ave., N.E., Bellevue, Wash. 98004; (800) 322-0859.



## ACCOUNTING AND TAX PLANNING

## Money Matters

One of the problems of elaborate PC programs is that they can give you more than you need, confusing you with too many instructions or taking up valuable machine memory (and some of your own as well). For the average small business, a full-blown accounting system is more than it needs, but simple bookkeeping is not enough.

Enter **Money Matters** from Great American Software. Money Matters is a scaled-down version of Great American's **One Write Plus**, but it adds some nice features—and takes away a few things you might not want. One thing it takes away is a requirement for you to begin with a trial balance. You can just begin work, changing your chart of accounts on the fly (you start with one of 14 charts, depending on the kind of business you have), and generating budgets as you go. It also does away with payroll and inventory.

A handy addition is a feature called **Supertrack**—Great American's president, Roger Melanson, calls it "triple-entry accounting." **Supertrack** "cards" track a particular piece

of equipment, job, or other kind of account. So if you want to check how much you are spending on maintenance for that particular item, you have it at once. Or if you want to check on how much revenue a particular item or salesperson is generating, you can check that as well.

You can track all of the costs and billable hours for a particular job, so that you have all the detail you need to

generate an invoice based on actual cost of the work.

This feature has been so well received that Great American has upgraded its big brother program, **One Write Plus**, to add **Supertrack**.

Money Matters generates a range of budgets and reports, handles multiple companies and checking accounts, prints checks and invoices, reconciles accounts, and performs all the usual tasks you want from a good basic accounting program.

Although no accounting program is exactly intuitive, Money Matters does obvious things in an obvious way, has pretty good prompts (though the on-line help could be more specific), and gives a good visual representation of what is going on. It even helped me find a bank error (can I help it if the bank can't read my writing?). And the price (list \$89.95; street price as low as \$55) makes it virtually a steal.

Money Matters requires IBM PC, XT, AT, PS/2 and compatibles, DOS 2.1 or higher, and 512K of RAM. Great American Software is at 615 Amherst St., Nashua, N.H. 03063; (800) 388-8000.

—Ripley Hotch

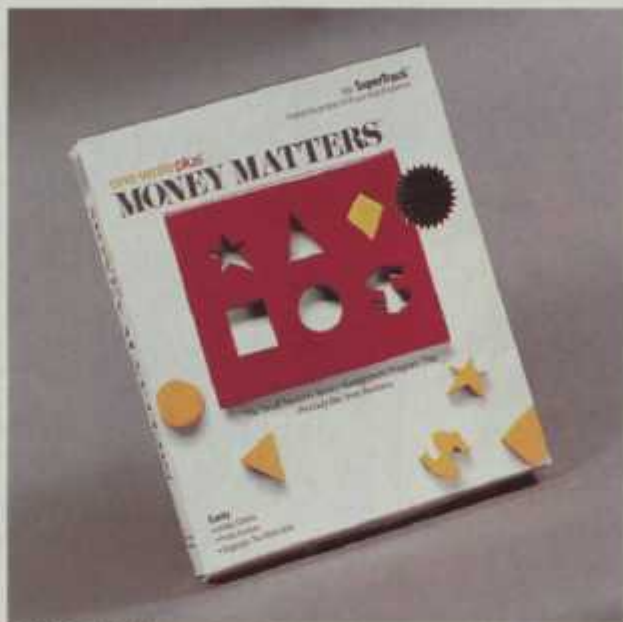


PHOTO: CHRISTOPHER MURRAY

## HELP FOR READERS' QUESTIONS

## Updating Accounting

We are a 2-year-old temporary-personnel agency operating out of our home. We recently purchased an IBM-compatible computer and would like to convert our manual accounting/payroll system onto the computer. We currently maintain a general ledger, income ledger, and accounts receivable ledger. For the payroll system, we would like to input information once for each employee and retrieve it for quarterly and year-end returns. Suggestions?

*Patti C. Gandy, President  
Legal Secretarial Services  
Jackson, Miss.*

Good accounting software is getting more versatile, more user-friendly, and cheaper. Almost any of the programs will do the jobs you are expecting, and much more, at prices from \$200 to \$1,500.

Some of our favorites are **One-Write Plus**, from Great American Software; **Bedford Accounting**, from Computer Associates; and **ACT 1 Plus**, from Cougar Mountain Software. They will give you the reports you want on your payroll system, and they also will keep track of taxes, write the checks for you, post the amounts to your general ledger, and automate your W-2 printing,

among many other features.

All are available from software stores or from mail-order houses, and all offer good user support.

## Constructive Advice

Please send me any information on concrete construction software.

*Patti Green  
Roger Green Construction  
Clearfield, Utah*

You don't say exactly what you want the software to do; you could use the whole range of general business packages, from spreadsheets to project management to accounting.

A new package that manages construction projects exclusively is **Auto-sight Permit Tracker II**, from Auto-sight Inc. The company says the software keeps track of permits, tests, inspections, project specifications, work schedules, and responsible managers for hundreds of projects. It also gives daily reports for managers and clients. It handles graphics, so the information database can include drawings, plans, illustrations, and maps. List price is \$495, and it requires IBM or compatible PCs with 512K of memory and DOS 2.0 or higher. For more information, call Autosight at (407) 242-5865.

## Automated Invoicing

Do you know of a program that will allow me to do all my invoicing (on pre-printed forms), collect sales information, pay bills, etc., all in one package? Right now I have several different programs that I have to use in order to do all that I am trying to do. There must be an easier way. I am a very small company with about 600 customers.

*James Rutison  
The Robert Simpson Co.  
Canandaigua, N.Y.*

Your letterhead tells us that you are a supplier of premiums and incentives, so you do have inventory to take care of. You need one of the good general accounting packages.

**ACT 1 Plus** from Cougar Mountain Software should be able to handle your needs if you have an IBM-compatible machine with at least 256K RAM and a hard disk. It has modules for general ledger, accounts payable, accounts receivable, order entry (with extensive reports on all aspects of sales and ordering), purchase order, payroll, check reconciliation, and inventory. It lists for \$199.50. For more information, write Cougar Mountain Software, 2609 Kootenai, Box 68886, Boise, Idaho 83707; (208) 344-2540. ■



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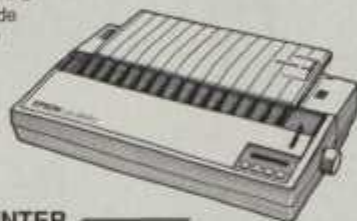
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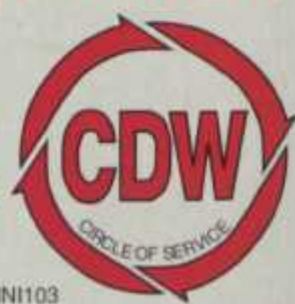
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## LESSONS OF LEADERSHIP

# Tom Stemberg Calls The Office

By Michael Barrier

In almost every photo, Thomas G. Stemberg looks like someone who is permanently disheveled, with hair tangled, tie askew, and short socks clinging desperately to his ankles. When you meet him in person, sure enough, that really is the way he looks—the stereotypical frazzled entrepreneur. "Things are always a little crazy," he says of his business, in what is probably an understatement. He talks fast, in a half-mumble, and his office, in a converted industrial building in Newton, Mass., is not so much cluttered as littered.

You will probably not see Stemberg on the cover of *Gentleman's Quarterly* any time soon. But what Tom Stemberg has done—ah, now, that is slick.

Through Staples, the company he and Leo Kahn founded less than five years ago, Stemberg has radically changed the office-products industry. In 1985, he noticed a yawning gulf between office-products retail stores and their warehouse-club competitors. The traditional retail stores offered a wide selection and personal service, but at comparatively high prices; the clubs offered much lower prices, but a sharply limited selection and no service to speak of. Large companies could negotiate prices with contract stationers, but for many small firms, on many items, mail order was the only alternative to the traditional stores.

Stemberg's solution: deep-discount "office superstores," which are to traditional office-products retailers what Toys "R" Us is to traditional toy stores. The similarity is intentional: Although Stemberg says that "we've had a lot of role models," he singles out Toys "R" Us as the most important.

Staples owns 48 stores, all in the Northeast. They resemble a typical warehouse club in miniature—towering metal shelves, the merchandise in piles—but with brighter lights and



PHOTO: © RICHARD ROMANO

**Staples' stores**—Stemberg is in the first one, in Brighton, Mass.—resemble warehouse clubs.

plenty of eye-catching red signs. As at warehouse clubs, customers shop with grocery carts, loading them with items frequently bundled, for economy's sake, three or more to a package.

Prices at a Staples store may not always be as low as those of a warehouse club, but they are indeed low—an average 50 percent below list price, Staples claims—and the selection is much broader. A Staples store offers around 5,000 different items, including furniture and office machines, compared with a few hundred at a typical warehouse club. Egghead Discount Software runs a licensed software department at about half the Staples stores.

Identifying a market is one thing,

*Staples' founder has shaken up an industry by selling paper and pens the way Toys "R" Us sells dolls and games.*

holding onto it is another. Many innovative companies discover markets, only to lose them to more aggressive rivals. As soon as Staples opened its first "superstore" in May 1986, other entrepreneurs picked up the scent and office-superstore chains sprang up in every part of the country. Office Depot, a chain concentrated in the Southeast, has opened almost twice as many stores as Staples. That gap may not mean much, though. Stemberg has devoted a great deal of money and effort not simply to opening stores, but to laying a foundation for future growth.

"We will win only because we have better execution," he says, "not because there's this huge wall that keeps other people out of the industry. We knew that from Day 1."

From the beginning, Stemberg has thought in terms of what will be required to run Staples successfully when the company is much larger. He has surrounded himself with managers who not only worked for very big companies—Wal-Mart, the Jewel

grocery chain—but in many cases supervised more employees and larger budgets than they supervise at Staples.

Says Christopher E. Vroom, an analyst with Alex. Brown & Sons, a Baltimore brokerage: "Staples has built a management infrastructure that is very capable of running a multibillion-dollar organization right now. They have taken a very thoughtful approach toward expansion, and they have made sure that they have more than adequate management to control it."

When Staples enters a city, it can take a few months for its stores to get off the ground. Potential customers, habituated to other methods of purchasing supplies, can be slow to visit. When the first Staples "superstore" opened in Brighton, Mass., just outside Boston, Stemberg could not even pay people to come in. Staples sent coupons good for \$10 worth of merchandise to



## LESSONS OF LEADERSHIP

35 office managers in the area, but it took more than a month of pleading to get any of them into the store—and even then, only nine showed up.

Breaking down such indifference always requires, Stenberg says, "a huge amount of marketing energy and dollars." But soon, as awareness of Staples grows, the need for that kind of marketing push falls away.

"People start shopping us in funny ways," Stenberg says. "A doctor swings by on a Sunday, buys a few things, and tells his office manager about it. The office manager already has a supplier, and she doesn't do much about it." The doctor has filled out an application for a Staples membership card, however, which entitles him to additional discounts on popular items such as copier paper, diskettes, and envelopes. By getting the card, he has

Because Staples reaches so many of its customers through targeted mailings and telemarketing (about 80 percent of its sales are to card holders), it can spend less on newspaper advertising. In some markets it has dropped newspaper ads altogether.

Staples has found a way to save on real estate, too, by relying on a central warehouse in Putnam, Conn., to serve all its stores in the Northeast, instead of having each store double as a warehouse (as the other chains do). The warehouse cost \$6 million in 1987—a substantial investment for so young and untried a company—but it permits Staples to occupy smaller stores and so pay less in rent.

The warehouse also means savings in labor costs. Wages are lower in rural Putnam than in the big cities where Staples has its stores, so Staples saves

the high costs it imposes: Los Angeles.

Says Vroom, the analyst: "With most other companies, if you saw them diversifying into a noncontiguous market that is quite different, that would be a concern. However, the way Staples has approached new markets suggests to me that they're going to be able to do quite well in California."

Staples started slowly, operating in the red for three years before it broke into profitability in fiscal 1990, earning \$6 million on sales of \$182 million. Earnings may dip—and the stock price may suffer—as the company spends to open its stores and warehouse in California, but Stenberg disregards such short-term considerations. "If you're CEO," he says of his decision to go into Los Angeles, "it's your job to make those kinds of strategic decisions."

**S**tenberg co-founded Staples after a tumultuous career in the grocery business, and he finds his current field serene by comparison: "I operated warehouse food stores at 16 to 17 percent gross margins pretty comfortably. Now we're operating a business with a 24 percent gross margin, and I'm very comfortable with that."

He was born 41 years ago in Orange, N.J., the son of Austrians who had fled Vienna after Hitler seized the country in 1938 (his father was Jewish, his mother Catholic). His father had been a lawyer in Vienna, but he had also run a hotel's food operations, and in New Jersey he opened a restaurant—"one of the few good restaurants in northern New Jersey at the time," Stenberg says.

The senior Stenberg died when Tom was 13, and he and his mother then moved to Austria; Tom spent his high-school years in Vienna and returned to the U.S. to enter Harvard University.

Stenberg planned at first to major in organic chemistry, but by his junior year he had dropped that idea, settling instead for a "humble-jumble major called physical sciences," which allowed him time to take the economics courses that had begun to interest him more. He got into business in a small way, as the second publisher of a new student newspaper, the *Harvard Independent*; "after I did that," he says, "it was pretty obvious that some form of enterprise made sense." But first came graduate school: "Harvard Law made it easy, they turned me down, so I went to Harvard Business School." He graduated with an MBA in 1973.

Stenberg next spent almost a dozen years in the grocery business, rising rapidly to high positions in two New England chains. At both, he competed vigorously on price—introducing gener-



PHOTO: © RICHARD HOWARD

The first Staples opened in this converted dental clinic in May 1986.

given Staples a critical marketing tool.

Armed with the doctor's office phone number and his office manager's name, Staples can, as Stenberg says, "go direct-market against that account. We might get her to make a trip and try it. She buys some things from us—hey, this isn't too bad. It's pleasant, she gets in and out quick, she can get delivery if she buys a lot of stuff. Then she compares the prices, and it's unbelievable."

This wooing of the office manager takes several months, but as it proceeds, Stenberg says, "gradually our business ramps up." Multiply that office manager by hundreds of other slow-starting customers, and you can understand why Staples' comparable-store sales rose almost 37 percent in the fiscal year that ended last Jan. 27.

money by having warehouse employees price and sort incoming goods. At the stores, deliveries go straight onto the shelves; store employees spend more time on the floor and less time handling the merchandise.

"What you always want to have in business," Stenberg says, "is to be able to achieve profitability at a price level where others have difficulty making money." In Staples' case, he says, "the competitive advantage is greatest where rents are high, labor is high, and media is hard to get and very expensive. So you start off in the toughest markets." That is why Staples has built most of its stores in the Boston-New York-Washington corridor. Late this summer, it will expand into the market that most resembles the Northeast in



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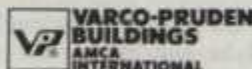
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## LESSONS OF LEADERSHIP

ic foods while he was with one chain, opening price-cutting food warehouses with the other.

"It was a nutso thing we were trying to do, and the fact that it worked out well was a miracle," he says of the latter episode. "We opened all these big stores, and we were trying to take market share away from people who were much better financed than we were. They retaliated and lowered prices."

In the tumult of the grocery price wars, he says, "I learned to appreciate the challenges of rapid growth. There was no better experience to have been through. It taught me the necessity of having infrastructure and putting it in place."

One of his bosses was "not terribly knowledgeable" about the grocery business, Stemberg says, and "I probably didn't do a very good job, in a corporate political sense, of making sure he understood the risks in what we were trying to do." The situation was, he says, "stressful"—so much so that Stemberg was fired early in 1985.

Waiting in the wings was someone who said to him, as Stemberg phrases it, "I want to back you in a business, kid. What have you got in mind?" This was Leo Kahn, who, as the owner of a food-warehouse chain of his own, had been one of Stemberg's fiercest competitors. Kahn had sold his chain for \$80 million, and he was looking for new investments. Says Stemberg: "Leo's the kind of guy who, if you fight him tough, respects you, where some guys hate you for life."

Stemberg hit on the idea for Staples when he noticed the demand for office supplies at a warehouse club. About one year later, Staples opened its doors. As Stemberg describes it, the whole process—market research, business plan, raising money from venture capitalists, opening the first store—unfolded with a dreamlike smoothness rare for a start-up. Stemberg didn't even have to rely on Kahn for most of his initial capital; once his business plan circulated, he says, other investors beat down his door. Since then, Staples has grown steadily, in the cool, methodical, buttoned-down manner that is so much

at odds with Stemberg's own harried demeanor.

For the first two years, Kahn was Staples' chairman and Stemberg its president; Stemberg has been chairman and chief executive officer since February 1988. Last year, Staples raised more than \$36 million through a public offering that left Stemberg with less than 6 percent of the company's stock. Staples remains very much Tom Stemberg's company, though. Despite his claim to have delegated day-to-day operations to President Henry J. Nasella, a colleague from his supermarket days, you need but mention one of Staples'

stores and Stemberg will offer you a pithy comment on how well that store is doing.

Stemberg is, clearly, a retail animal, a man fascinated by the details of bringing products and customers together. Ask him why Staples doesn't use bar-code scanners at checkout, for example, and he plunges into a brisk examination of the pluses and minuses.

*We will win only because we have better execution, not because there's this huge wall that keeps other people out of the industry. We knew that from Day 1.*

—Thomas G. Stemberg

"Scanning only offers benefits when you can remove price stickers," he begins. True, scanners can be used to track customers' buying patterns, but since Staples' cashiers enter a six-digit "look-up code" for each item, "we have exactly the same information." Scanning also offers benefits in speed of checkout—but since the typical purchase at Staples consists of only five or six items, speed isn't a critical issue.

Moreover, manufacturers have been slow to put bar codes on office products, and so many items would still require price stickers even if Staples converted to scanning. Some office-products retailers using scanners "are putting on bar codes in the back of their own store," Stemberg says. "That's more expensive than marking it with a price sticker. About 68 percent of our throughput is now manufacturer-marked. When that gets to 90 percent, then it's going to be very attractive to scan, and you'll see us jump into scanning. We'd rather make money than be pioneers without any real benefits."

To be a pioneer with real benefits is, of course, another matter. No one knows that better than Tom Stemberg. **B**



# Family Business

*Signs that women are gaining a larger presence in business; passing the baton between generations; shifting a firm's focus from squabbling to succession.*

## COMMENTARY

### A Nearly Fearless Forecast

By Sharon Nelton

I shy away from making forecasts. But let me go out on a limb and predict that we are about to see an explosion in the number of family businesses owned and operated by women.

The first signal is the surge of women entrepreneurs. Throughout most of the '80s, women entrepreneurs were identified as the fastest-growing segment of the small-business community. More than 4.5 million women in the U.S. are sole proprietors, and women are expected to own 40 percent to 50 percent of the nation's small businesses by the year 2000.

Like so many of the men who founded businesses before them, women will invite their children into the companies. That is already evident in the older generation of women business owners. For example, the Kansas Small Business

Person of the Year is Marta Maxwell, whose Airparts Co., a wholesaler of aircraft parts, was started in 1963. She has brought her husband, son, and daughter into her company.

Signal No. 2: Male business owners increasingly see their daughters as viable successors. Owners are beginning to realize that the oldest son is not automatically the most qualified to take over the family business; they are realizing, too, that if no son is available, all is not lost. Two visible examples are Christie Hefner, chairman and CEO of Playboy Enterprises, and Linda Johnson Rice at Johnson Publishing, which publishes *Ebony* and *Jet* magazines. Rice is the company president and is destined to succeed her father as CEO.

Other examples are plentiful. The National Automobile Dealers Association's Dealer Candidate Academy, which trains sons, daughters, and wives

to take over auto dealerships, used to have scarcely any women. Now 20 percent of its students are female.

A third signal is that women are more willing than ever to fight for control. They not only are more inclined to take over when a husband/owner dies but also are more willing to go to the mat in very tough circumstances. We are seeing women win the business in divorce settlements. We are seeing women who will challenge siblings and even parents for control. We are seeing

women challenge franchisors for the right to run a business and lenders for the right to have access to capital. In short, women are more confident than ever about their ability to run a business.

As a consumer, I am happy with these changes. Women have been moving into the

professions for some time, and now I find that many doctors I see are female, including my primary-care physician. Visiting the doctor is a vastly improved experience for me, not because women are medically better than men but because they are simply more sensitive to my needs as a woman patient. Maybe women won't be better than men at running businesses, but my guess is they'll be just as good. And as a member of the sex that purchases 40 percent of the automobiles in this country, I look forward to buying a car someday from a woman. The optimist in me hopes that women dealers will make buying a car a more pleasant undertaking than it now is for most of us.

So here's a welcome to women family-business owners. By the year 2000, may they be so commonplace that you won't be reading predictions like this. And I won't have to go out on a limb.



Nelton: "Women are more willing than ever to fight for control."

## PLANNING

### Succession: A New Image

By Craig E. Aronoff and John L. Ward

"I don't know if I'll ever be in charge. Although I've been president—at least in title—for four years and I've been told the business will be mine, I'm not even sure what my job is, what my authority is, or whether it'll ever happen. If only I could see the light at the end of the tunnel!"

The words are those of a man working in a firm that his father founded, and his anxieties are not uncommon.

For most families, succession is the most painful time in the life cycle of a business. Parents fear letting go. Successors crave autonomy. Each side feels the other is selfish.

Succession is rarely simple. Whole lives of relationships, expectations, and habits are at stake. But much can be done to calm nerves and smooth the transition to the next generation of leadership.

The process can be less painful if we can change how we view succession. Most see the changing of the guard as a dramatic event—much like hitting a home run. A far better image is the graceful exchange of the baton between runners in a relay race. The exact instant of passing the baton from one runner to the next is almost undetectable to the spectator—just as it should be in the family firm.

Properly planned, succession is an evolutionary process. When the announcement is made that a new chief executive is in place, the word around the business should be: "Oh, that's what I've been expecting." For succession to be an orderly "nonevent," it takes careful planning and artful management of expectations over a period of several years.

In a relay race, one runner does not stop and hand the baton to another team member who then begins to run. Both runners are near full speed when they make the transition. But to be successful, the process requires step-by-step practice and a good team. In addition, the runner who makes the pass



# Mark Your Calendar

## July 9-13, Springville, Utah

"Energizing Your Family Business Boot Camp" covers such topics as bringing peace to a conflicted family, succession planning, and training daughters for leadership. For information on the event, contact the Jefferson Institute, 757 S. Main St., Springville, Utah 84663; 1-800-672-6019.

## July 11-13, Philadelphia

"Fathers and Daughters in Family Businesses," a workshop conducted by two nationally known family-business consultants, Matilde Salganicoff and Barbara Hollander. Topics include how male and female characteristics affect father-daughter teams, and how generations learn from each other. Contact JMW Professional Consultants, Gateway Towers—4C, Pittsburgh, Pa. 15222; (412) 281-1182.

## July 19-22, Snowmass Vll., Colo.

The Aspen Family Business Conference focuses on 10 essential qualities shared by successful family businesses, as identified by pioneering family-business consultant David Bork. Contact the Bork Institute for Family Business, 117 Aspen Airport Business Center, Suite 101, Aspen, Colo. 81611; (303) 925-8555.

## Aug. 2-4, Carmel, Calif.

"The Family Business Experience," a three-day course covering such topics as succession planning, women in family firms, and relations with nonfamily employees. Contact the Center for Entrepreneurial Management, 180 Varick St.—Penthouse, New York, N.Y. 10014; (212) 633-0060.

## How To Get Listed

The Family Business Calendar lists national and regional events that are open to the public. Send listings three months in advance to Family Business, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062.

must make sure to get out of the way.

In the most common approach to succession, the heir apparent is given a title such as executive vice president, general manager, or chief operating officer. In that role, the successor is expected to learn more and more about each function of the business—finance, marketing, production, and so on—until a "coronation" date, when all the authority suddenly becomes his or hers.

We believe that the successor should acquire responsibility and take final authority one step at a time. Once the successor has been identified, the current leader begins to delegate more and more specific, concrete authority. For example, this year the successor will have authority for sales and marketing. In two years, responsibility for production or operations is added. In four or five years, the final step, finance, is



ILLUSTRATION: JIM STARR

handed over. The successor gets lots of training and practice until day-to-day decision making is fully delegated.

With this approach, the successor and the chief, as well as the organization, see the process as evolutionary. Each person's responsibilities are clearer. Indecision and ambiguity are reduced. People don't trip over each other determining who's in charge.

In most family businesses, final decisions have long been the sole domain of the founder. To ease the transition and strengthen the total organization, we recommend that policy decisions increasingly become the responsibility of the top management team. Building a solid team of top managers and using them effectively are crucial for assuring that the family-business baton is passed smoothly and that the runner does not stumble. Management learns to depend less on the eventually departing chief. At the same time, the successor does not have to make critical decisions suddenly.

Rather, the successor can earn the respect of the other top managers by adding fresh insight, good judgment,

and consensus-building skills to the team.

Finally, the runner who passes the baton must get out of the way. We recommend that the retiring chief finish his or her part of the race gradually but completely. During the last three to five years of the succession process, the parent takes on more and more the role of "chairman" while the successor eases into the CEO responsibility.

To complete the transfer, we recommend keeping the departing chief informed of and involved in business decisions. Even when responsibility for all the functions has been passed on step-by-step, for a while the successor should continue to bring all important decisions to the parent for guidance—as often as daily. After a year or two, the successor can meet with the past CEO about once a week to review decisions and critical strategic issues.

In the final year or two, the parent is involved only in board-level decisions such as debt, acquisitions, profit goals, or firing a family member.

One more element in our relay-race analogy must be considered. The baton must be passed within a precise, well-defined zone. If the transfer is made too early or too late, your team is out of the race. As important as anything in succession planning is a clear understanding of when the whole exchange is complete. A designated and agreed-on target should be set so the successor can see "the light at the end of the tunnel."

Succession is an evolutionary process taking a total of five to 15 years. The next runner gradually speeds up until it is time for the baton to be handed over. The runner passing the baton keeps running for a while after the graceful exchange takes place. When there are no sudden moves or halts in the transition, it works well. Hardly anyone notices, and no speed is lost. The winning team cannot succeed without effective transitions, but its members celebrate the winning—not the passing.



PHOTO: T. MICHAEL KEZIA

John L. Ward is the Ralph Marotta professor of private enterprise at Loyola University of Chicago. Craig E. Aronoff holds the Chair of Private Enterprise at Kennesaw State College, in Marietta, Ga. Both are family-business consultants.



## CASE STUDY

# Will The Business Break The Family?

Mary and Tom Devon have successfully brought the Devon Co. to the point where they can take extended vacations, leaving the business in the hands of their four adult children. But as in many family businesses, the children lack formal management training and experience. Joel, the oldest son, is operations manager and seizes every opportunity he can to exercise the power of his position over his two brothers and his sister. From time to time, the other three get fed up with Joel, individually or as a group, and heated arguments



ILLUSTRATION: JIM STARR

follow. That's when Mary and Tom usually step in, quiet their children down, and get things back to normal.

The Devon Co. is built on inventions that Tom devised to serve the printing

industry. These inventions give Devon a unique market advantage that could evaporate easily if a very large company decided to enter Devon's niche. As a result, Tom feels very uneasy about his children's long-term abilities to manage the company, particularly if business were to turn sour. Tom and Mary have often told each other and their family how important it is that they have a close and loving family. But now, in their sixties, they are worried about how to keep the business successful after they retire and how to assure that their children will get along with one another. The elder Devons would rather sell the business than see it become a factor in breaking up their family. But is that their only choice?

## Consider A New Strategy

*Ted Lakkides, president of Cygnet Financial Planning Inc., in Rochester Hills, Mich.:*

One of the first things Tom and Mary must do is see to it that the four children get the training and knowledge necessary to do their jobs more effectively and professionally. This ideally would result in the kids' learning the rules of the management "game" so that the energy currently expended on sibling rivalries could be channeled toward running the business and developing the skills required to handle business adversity that comes in the form of market shifts or stepped-up competition.

At the same time, the family must determine whether Tom's inventive genius, the key to the company's success, can be replaced. It seems that none of the children inherited Tom's gift.

Furthermore, if the creation of new products is to continue to be a core function of the Devon Co., bringing in outside talent could be difficult without giving up some ownership in the company. And obviously, forming a classic research-and-development department to do what Tom does naturally may be very expensive.

If replacing Tom as a resource is not feasible, it makes sense to redefine the business, turning it, for example, into a marketing organization. There may be significant opportunities for improving the company's penetration by focusing more intensely on distribution and pricing strategies. There may also be related products from other firms that the Devon Co. can add to its current mix to build its sales volume.

An advisory council that includes nonfamily members with marketing proficiency could help define and implement Devon's overall marketing plan. The council would also function as a buffer between family members so that business issues could be addressed properly and would not become sources of conflict.

Proper use of the council would also create constant opportunities for the children to learn business concepts and develop skills to manage the company successfully.



PHOTO: ©JEFF LAWRENCE



PHOTO: ©RICHARD DENK

## First, Strengthen The Business

*Joseph Ginsburg, partner in the law firm of Levin & Ginsburg Ltd., in Chicago:*

Soliciting buyers now will not yield the best price. Buyers will quickly recognize the weak bargaining position of a couple who sees selling as its only choice. Tom and Mary must take charge of the future by planning first to strengthen the business, even though it eventually may be sold. As things stand now, Tom and Mary still lead the business. In their absence, the children administer but cannot manage, because no one leads. Things calm down when Tom and Mary are around only because the children acquiesce to their parents' wishes without a clear belief in the future. Acquiescence without direction or conviction sows the seeds for disaster to strike when the leader is absent.

Solid succession planning will benefit the company, improve family relations, and enhance financial security for all the Devons. Planning creates alternatives, provides children with a better chance of succeeding parents in running a business, or results in a better sale price. The goals must be realistic and honest, considering the capabilities and interests of all family members. Defined roles for each will facilitate the plan.

Tom's inventions and know-how should be legally protected. If this competitive advantage cannot be sustained, an alternative business direction must be chosen.

A shareholders' agreement is a must. It gives each child a stake in the outcome and commits all to specific goals. It documents the children's ability to acquire equity over time if the plan's objectives are met. Mary and Tom can require their children to buy the company or can still sell to a third party. If the plan's objectives are met, the children can require the parents to sell at an agreed-upon time and price. The agreement sets forth alternate exit strategies for the parents and gives them control, while giving the children an incentive to succeed.

"To sell or not to sell" is always the question. The answer, however, should never come by default. Instead, it should result from a well-conceived and carefully executed succession plan.

This is one of a series of case studies of family-business dilemmas, commented on by members of the Family Firm Institute and edited by Cleveland business consultant Ernesto J. Poza. The cases are real, but identities have been changed to protect the privacy of the individuals involved. The authors' opinions do not necessarily reflect the views of the institute. Copyright © 1990 by the Family Firm Institute, Johnstown, N.Y.



# Direct Line

*In which experts answer our readers' questions about starting and running their businesses.*

By Meg Whittemore

## RETAILING

### Antiques

I want to get into the antiques business. Can you direct me to some association that will help?  
G.C., Miami

For general information on the antiques trade, contact the National Association of Dealers in Antiques, P.O. Box 421, Barrington, Ill. 60011; (708) 381-7096. For information on becoming a certified antiques appraiser, contact the Antique Appraisal Association of America, 11361 Garden Grove Blvd., Garden Grove, Calif. 92643; (714) 530-7090.



ILLUSTRATIONS: DAVE ALLEN

Antiques dealer Owen Sullivan, who has a shop in Alexandria, Va., and has 20 years of experience in the field, says you should talk to other dealers in your area and choose your store's location carefully. "Location can make your business or break it," he says.

Finally, *Buying and Selling Antiques: A Dealer's Inside View*, by Sara Pitzer and Don Cline, discusses how to deal and profit in antiques. The book costs \$11.95, plus \$2.75 for shipping and handling, from Storey Communications Inc. at (802) 823-5811.

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## TRANSITIONS

### Dissolving An S Corporation

I am the sole owner and stockholder of a Subchapter S corporation registered in New York. There are no accounts receivable, accounts payable, or assets. How do I go about dissolving this corporation?  
A.M.W., Spring Valley, N.Y.

Contact New York's Division of Corporations, Department of State, 162 Washington Ave., Albany, N.Y. 12231; (518) 473-2492. That agency will send you a form that you must complete and return. There may be taxes due (franchise or corporate income), and there may be a fee for dissolving your company. The state also will want to make sure that any corporate debts will be paid.

## SERVICES

### Landscaping

I am interested in starting a business in landscape design. Where can I find out about licensing and/or regulations?  
T.D., Monte Vista, Colo.

The information you need can be obtained from the Colorado Department of Agriculture, Division of Plant Industry, 1525 Sherman St., Denver, Colo. 80203; (303) 866-2838. Robert Brayton, plant and insect specialist for the department, says you must have a license to sell nursery stock in the state. The \$60 fee for the license (renewable annually) must accompany your written application. The nursery must be inspected yearly, and the inspection costs \$18 to \$54, depending on the time required.

For a list of publications about starting a landscape business, contact the Associated Landscape Contractors of America, Publications Department, 405 N. Washington St., Falls Church, Va. 22046; (703) 241-4004.

Another good resource is *Basic Elements of Landscape Architectural Design*, by Norman K. Booth, which covers the basics of landscaping. To order, send \$39.95 to Waveland Press, P.O. Box 400, Prospect Heights, Ill. 60070.



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## THIS MONTH'S MOST-ASKED QUESTION

### The Patent Process: Complex And Yet Straightforward

It was 200 years ago this month that Samuel Hopkins of Pittsford, Vt., was granted a patent for potash and pearl ash, chemicals used in making soap. Hopkins' invention prompted the issuance of the first patent in the U.S.—signed by George Washington—and started this country's unending love affair with inventions and their protection.

Our Direct Line letters indicate an increased interest in patents, so we thought it appropriate to shed some light on the subject.

Not all creations qualify for a patent. "Patents cover mechanical things or chemical processes but not recipes," says Oscar Matsin, public-affairs specialist for the U.S. Patent and Trademark Office.

Individual inventors get about 23 percent of all the patents granted during a year, 75 percent go to companies, and the remaining 2 percent are issued to universities or government agencies. Patents expire after 17 years.

The process of obtaining a patent is complex but also straightforward. For an overview of the entire procedure, including forms for a do-it-yourself patent application, you can order the brochure *General Information Concerning Patents* for \$2 from the U.S. Government Printing Office, Washington, D.C. 20402. Ask for stock No. 003-004-00634-0.

If you are thinking of seeking a patent, you should consider hiring a qualified patent attorney to handle the application and follow-through procedures.



## AGRICULTURE

### Mushrooming Opportunities

We have horses and therefore have a never-ending supply of the prerequisite resource for raising mushrooms. However, we need a source for the mushroom spore and any other information on raising mushrooms.

P.J.N., Oxford, Mass.



Jeanette Dillon of the American Mushroom Institute says she fields at least 20 calls a day "from all sorts of people, not just farmers," interested in growing mushrooms.

She will send you a free information packet on how to start such a business, including where to buy the mushroom spawn, which spurs growth.

She also suggests you contact compost dealers listed in the packet to ask for advice on using and possibly selling the compost.

Write or call Dillon at the American Mushroom Institute, 907 E. Baltimore Pike, Kennett Square, Pa. 19348; (215) 388-7806.

"It may be more expensive, but a patent attorney is skilled in the art of drawing up the application to get the broadest possible coverage for the client," says Matsin.

Be sure the attorney you choose is on the U.S. Government Printing Office's list of agents and attorneys registered with the Patent Office. Check your library for a copy of the publication *Patent Attorneys and Agents Registered to Practice Before the United States Patent and Trademark Office*. Patent attorneys are available locally and are listed in your telephone directory.

The cost to a small inventor (defined by the Patent Office as an individual, partnership, small business, or a non-profit organization) to apply for a patent is \$185. For a corporation, the cost is \$370.

Attorneys' fees are additional; expect to be charged \$100 to \$300 per hour. The entire application process can take 18 to 25 months.

## LODGING

### B&B Retreats

I am interested in starting an executive-seminar retreat/bed and breakfast business. Where do I find information on management-seminar retreats and B&Bs?

J.M., Lancaster, Pa.

For help in setting up a bed and breakfast, contact the American Bed and Breakfast Association at 16 Village Green, Suite 203, Crofton, Md. 21114; (301) 261-0180. The association offers a variety of free information on the B&B industry.

Another source for start-up tips is *How to Start and Operate a Bed and Breakfast*, a set of nine audio tapes by Deborah Sakach. The set of tapes, \$89.95 plus shipping, covers such topics as location, renovation, marketing, management, and accounting. Order from the Association of American Historic Inns, P.O. Box 388, San Juan Capistrano, Calif. 92693; (800) 397-INNS.

The executive seminar retreat business may be a bit costly, warns Geoffrey Sistek of Alexandria, Va., a specialist in executive-retreat and convention services. "Business executives often expect state-of-the-art audiovisual services and elaborate meeting facilities," he says. A possible market niche might be to appeal to smaller companies on limited budgets that cannot afford the larger resorts for their executive retreats, he adds.

## HOBBIES

### Arts & Crafts

I would like to open an arts and crafts/hobby supply business in our small town. Where can I get information?

K.N., Jamestown, N.D.

(Similar questions from C.K., Frederick, Md.; C.R., Grenada, Miss.; V.L.D., Quincy, Ill.; and G.S., Quapaw, Okla.)



For information on supplies and dealers, write or call the Art and Craft Materials Institute, 715 Boylston St., Boston, Mass. 02116; (617) 266-6800.

*Start and Run a Profitable Craft Business*, a book by William G. Hyne, presents a step-by-step approach to setting up a craft and hobby store. It is sold in bookstores for \$10.95.

To obtain information on the hobby field, contact the Hobby Industry Association of America, 319 S. 54th St., P.O. Box 348, Elmwood Park, N.J. 07407; (201) 794-1133.

## TRANSPORTATION

### Pickup Start-Up

Everyone, at one time or another, needs a pickup truck. I want to start a rental service for pickup trucks. Where do I start?

E.C., Burlington, Iowa

A good place to start is the National Vehicle Leasing Association, which of-



fers a publications list, information on the leasing industry in general, and a variety of educational programs.

For more information on the subject, write or call the association at P.O. Box 34028, Los Angeles, Calif. 90034; (213) 838-3170.

Another source of information on all aspects of vehicle leasing, including federal and state regulations, tax and accounting standards, and market trends in consumer leasing, is *Essentials of Consumer Vehicle Leasing*. The publication is available for \$195 from Bank Lease Consultants Financial Publications, 2950 Merced St., San Leandro, Calif. 94577; (415) 895-1900.

## HOW-TO-ASK

Have a business-related question? Send your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space.

The editors of Direct Line have compiled the most-asked questions into the compact *Your Small Business Survival Guide*, at \$3 a copy. To order, write to the Circulation Department at the address above. ■



# For Your Tax File

*What you need to know to keep taxes from overtaking you.*

By Gerald W. Padwe, C.P.A.

## CAPITAL LOSSES

### Moving New Employees

When hiring a high-level employee who must relocate to your part of the country, you may have to offer incentives to make the relocation attractive.

If real-estate values are slipping in the area, your new hire may ask for protection against a drop in the value of his or her home in the event the employment is terminated. This occurred in a case recently decided by the U.S. Tax Court, with a most unpleasant tax result that might have been avoided.

A company recruited a high-level manager who relocated on condition that the company purchase his house at fair market value if the firm terminated his employment within a certain period. Thus, he could leave the new city without having to worry about a continuing weak market for reselling his home.

Within two years, the company terminated his employment. His home was appraised at \$285,000. The company bought it from him, sold it at a loss of \$111,000 nearly two years later, and deducted the amount as a business loss. But the Internal Revenue Service, sustained by the Tax Court, held that the loss was only a capital loss and could not be deducted against the company's operating profit.

Unfortunately, the employer ran afoul of a 1988 Supreme Court decision that had reversed a longstanding principle of tax law. Under the earlier rule, if a business transaction resulted in loss on an asset sale, it was considered an ordinary loss, deductible against regular business income. The 1988 decision concluded instead that the character of an asset was critical and not the motivation for its sale. If the asset was a capital asset, as defined in the Internal Revenue Code, then a loss would be only capital, regardless of the purpose of the sale. The home met that definition, and the loss was capital.



*Gerald W. Padwe is associate national tax director for professional practice for Deloitte & Touche. Readers should see tax and legal advisers on specific cases.*



PHOTO: © GARY FORD CONNELLY—PICTURE GROUP

**Agreeing to buy your newly recruited and relocated executive's house if there's a parting of the ways can be a taxing mistake.**

Could the company have negotiated a better agreement from a tax perspective? Very possibly. The critical action that led to the capital loss result was the corporation's actual acquisition of a property interest in the home. Once the company was an owner, the only issue became the nature of the asset.

On the other hand, the firm could have agreed to let the manager sell his home and to reimburse him for any economic loss when he sold it, based upon the appraised value of that home when the employment was terminated.

Another possibility would have been to use a third-party relocation service to purchase the home from the former em-

ployee for its appraised value, and then reimburse the third party for any economic loss. The company then would not actually own an asset but would have only a contingent obligation to pay out money. Clearly, there would be a better opportunity of sustaining a business-loss deduction with such facts.

Yet another option, if the corporation had to purchase the home, would have been to rent it during the period it was up for sale. This would have converted a capital asset into a trade or business asset of the company's, and it likely would have justified both current depreciation deductions and an ordinary loss at the time of the sale.

## DEDUCTIONS

### Watch Those Entertainment Expenses

A year ago, this column told of a company that had invited some of its best customers to New Orleans for a Super Bowl weekend—an invitation that had created much goodwill, which helped boost the company's sales. But the U.S. Court of Claims denied the deduction for the weekend's costs on several grounds, including the absence of organized business discussions during the weekend. The company appealed the decision to the U.S. Court of Appeals and has lost again. The appellate court emphasized that there are specific statutory constraints on deducting enter-

tainment-type expenses, which include the need for business to be conducted as part of the entertainment or, in some instances, immediately preceding or following the entertainment event.

In the case on appeal, the court found there was no serious effort to conduct business during the weekend. Had there been one or two formal customer meetings, along with product displays, sales talks, etc., some or all of the weekend entertainment expenses might have been deductible. Entertainment expenses are not necessarily disallowed, except for 20 percent of the cost of meals. But they are looked at with a more jaundiced eye than other business expenses. **B**



# It's Your Money

*A monthly survey of strategies, tactics, tips, and suggestions to help you with your personal finances.*

By Peter Weaver

## ESTATE PLANNING

### The Revocable Trust: Better Than A Will?

Every business man or woman who has a fair amount of assets should have a will—right?

Yes. But that's not enough. Most business people, according to New York attorney Edward S. Schlesinger, should have revocable trusts, because they are much more flexible, provide

If revocable trusts have so much to offer, why are so many assets passing to heirs under wills and not through revocable trusts? "Because a lot of lawyers are not familiar with the procedure," says Schlesinger.

A revocable trust is a remarkable financial-planning tool that can handle all sorts of contingencies, particularly your incapacity, whether from an accident, a stroke, or an affliction such as

Alzheimer's disease. "The biggest problem you face as you grow older," says Schlesinger, "is not so much what happens when you die but what happens if you can't take care of yourself. The law doesn't respond to the problem of reduced capacity," he continues, "and it can be a nasty situation for families."

If you are incapacitated in the absence of a revocable trust, someone must ask a court to declare you incompetent. That can be embarrassing and expensive, and it can provoke family feuds.

A revocable trust can head off such a situation by setting up a plan that spells out just what's to be done with your money and property if you are unable to manage your own affairs.

If you become incapacitated, the trustee takes over, with no need to go to court. You can be one of the trustees yourself until you're incapacitated. Then the job can go automatically to one or more successors, who may be individuals or a bank trust department.

"If you have a fairly large estate with various types of investments," says William J. Wilkie, senior vice president of Bankers Trust of New York, "you'd be needing investment and tax advice, which the trust department can provide." Wilkie's bank, as do many others, charges a management fee of around 1 percent of the total assets.

If your assets are mainly in certificates of deposit, U.S. Treasury offerings, and other such easy-to-handle assets, you or a family-member trustee can do your own financial management and save the fee.

Because a revocable trust does not have to go through probate, the contents are not made public. "You can include people in a trust you don't want other members of your family, or the media, to know about," says Schlesinger.

Even when your major assets are included in a revocable trust, you will still need a supplementary "pour-over" will to handle the disposition of such assets as cars, jewelry, furniture, and clothing.

Some people don't like the hassle and initial expense of transferring ownership of their major assets to a trust. "For these folks," says Rhonda Brink, an Austin, Texas, attorney, "we recommend a standby trust, which is easy to do at a minimal cost."

With this kind of a trust, Brink says, relatively little property need be transferred now. The rest can go into the trust automatically when you become incapacitated or die.

For more details about revocable trusts and standby trusts, you should consult an attorney. If you don't already have someone in mind, your local bar association can provide some names.



PHOTO: ©ROBERT RATHS—FOLD, INC.

*Flexibility and privacy in estate planning are among the benefits that flow from using a revocable trust.*

more privacy, give you more protection, and eliminate the time and expense that it takes to go through probate.

Through a revocable trust, you can appoint a trustee to dispose of your assets upon your death, or to manage them if you're incapacitated. But because the trust is revocable, you always have full control over all assets assigned to the trust; you can add to the trust, subtract from it, or nullify it at any time. (Creating a revocable trust thus has no tax consequences while you're alive, because no gift is involved.)



*Peter Weaver, a former Washington bureau chief for Forbes magazine, is a columnist on personal finance.*

## INVESTING

### Bottom Fishing For Junk Bonds

A lot of investors got burned by junk bonds, those high-yield financial instruments used to finance takeovers, mergers, and other such corporate activities.

What was not explained when they bought those bonds was the concept of "total return." Sure, yields on junk bonds can go as high as 14 to 16 percent. But look what happens when prices go down in a weak market.

Take a \$1,000 junk bond you might have purchased because it was paying 15 percent. Say that the continuing bad news about junk-bond issuers going into default prompts the market to drop your bond price to \$900.

You make \$150—the interest paid during one year—but lose \$100 on the



lower resale price. Your net gain is \$50, or 5 percent, which is considerably less than what you could get with a much safer certificate of deposit.

Nonetheless, says Peter Dickinson, publisher of *The Retirement Letter*, a financial newsletter, "there are some exciting opportunities [in junk bonds] for those who can afford to take greater risks in order to reap greater rewards."

Sheldon Jacobs, editor of *No-Load Fund Investor*, a newsletter, maintains that "some investors are bottom fishing right now, buying into junk-bond funds because they think prices are too low for the values involved."

Jacobs suggests selecting a no-load (no-commission) junk-bond fund from a major family-of-funds company such as Fidelity, T. Rowe Price, Vanguard, or Value Line.

According to Dickinson, the bulk of the bonds in the fund you buy should be rated at least a single B by either Moody's or Standard & Poor's rating service.

Ralph Presutti, a certified financial planner with the Advest financial firm, offers this additional advice: "Sign up for the fund's dividend-reinvestment plan, which can give you a form of dollar cost averaging. . . . If the fund share price goes up, you make a paper profit. If it goes down, your reinvested dividends buy more shares for the money."

## CREDIT CARDS

### Worldwide Cash From Bank Cards

It's Sunday, you're in Sioux City or Singapore, and you're out of cash. Are you also out of luck? Not if you have a Visa or a MasterCard credit card. Chances are that you can use your card to access a local bank or airport ATM (automatic teller machine) and be on your way.

"We now have 46,000 ATM outlets in the U.S. and 37 other countries," says Visa International spokeswoman Janet Pruitt. Within 18 months, Visa and its ATM associate, PLUS Systems Inc., will have more than 60,000 outlets around the globe.

MasterCard and its ATM associate CIRRUS are putting together a comparable worldwide network.

Wherever you are, just look for a Visa, PLUS, MasterCard, or CIRRUS logo on the ATM machine, and you're in business.

American Express has its own ATM cash network around the world, and Sears' Discover card has a network in the U.S.

You need a four-digit PIN (personal identification number) to access the ATMs. If you don't have one, call your card issuer.

You will receive your own secret number in the mail, and it should be

## TRAVEL

### To Survive The Airport Crush, Join An Airline Club

You may have thought, as you stood in line at the airport ticket counter or bolted down a cup of coffee standing up, that there has to be a better way to fly. There is.

With airports getting crowded with summer travelers, this might be a good time to join an airline club. Costs range from \$125 a year per person to join the USAir Club, serving passengers at 24 airports, on up to \$200 a year for United Airlines' Red Carpet Club, which has facilities at 17 airports in the U.S. and 10 overseas.

Within that price range are TWA's Ambassadors Club, Delta's Crown Rooms, American's Admirals Club, and Eastern's Ionosphere Club, now combined with Continental's Presidents Club. Midway Airlines, Northwest, and Pan Am also have clubs, with similar rates.

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## COLLECTIBLES

### "Worthless" Securities May Have Hidden Value

Those old stocks and bonds that you find in grandpa's attic or grandma's safe-deposit box are often worthless as tradable securities—but watch out. Don't throw that old certificate away or give it to the kids for funny-money games. It could be worth something as an antique.

"Old American Express stock certificates issued back in the 1800s and signed by Wells and Fargo, who created the original Wells Fargo Bank, can fetch as much as \$3,500 on the collectors' market," says Robert D. Fisher, research specialist with R.M. Smythe &

Co., a New York City firm that tracks old securities.

Another rare item, worth up to \$7,000 (depending on condition), is a Standard Oil certificate from 1870 signed by John D. Rockefeller and Henry Flagler.

Automobile stocks from companies that have long gone out of business are selling for as much as \$300 a certificate. If you find a certificate originally issued by a company like Stutz, Reo, Durant Motors, or Studebaker, you might have a winner.

More recent issues also may command extra cash because of their artistic value. For instance, certificates issued by the original Ringling Brothers corporation may be worth as much as \$300 because of the fine circus-scene art work.

And who knows? That old certificate you found in the attic might even have some intrinsic value as a security, with a payout waiting for anyone who can support a claim of ownership.

You can get a current (securities or collector) market-value appraisal by sending \$35 and a copy of the certificate in question to R. M. Smythe & Co., 24 Broadway, New York, N.Y. 10004. **B**





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For a \$9,900 start-up fee, the Tews received 6 months of training/consulting, a 2-day indoctrination at PVC headquarters in Joliet, Ill., comprehensive forms, manuals and just about everything else needed.

They offered their services on a contingency basis, usually receiving from 1/3 to 1/2 of the savings. (Most clients renew yearly which is how an incredible residual income can be built up.)

First year results: \$100,000 in fees, including a \$50,000 reduction on an oil related property with a \$25,000 fee.

The second year was even better. Bruce

saved the same oil company another \$90,000, for an additional \$45,000 fee, and had total gross fees of over \$200,000.

"This business can be run out of a small office or even a home," says Nancy Freeman, President of PVC. We show our affiliates how to attract as many qualified clients as they can handle. Just 50 clients per year can net over \$100,000, and we serve more than 1,500 clients in any given year here in Joliet, a city of only 73,000 people."

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# Franchising

*Entrepreneurs alert to preferences for specialty foods expand through franchising.*

By Meg Whittemore

## Menus For Growth

Mention submarine sandwich to Patricia Larsen of Reno, Nev., and you'll get a detailed description of the best meats, cheeses, and produce to use in them. She'll tell you what kind of sub is ordered most often (roast beef) and where the submarine-sandwich market niche is headed (up).

Larsen is one of many entrepreneurs who, in the late 1970s, recognized the public's growing preference for healthy, fresh, fast, and convenient food—and stepped in to meet the demand. Larsen and her husband, John, own and operate Port-of-Subs, a carry-out submarine-sandwich franchise. "Since we started in 1975, we have made millions of subs ourselves," says Pat Larsen.

From 1975 until 1985, the Larsens developed 10 company-owned units, and they began franchising in 1986. There are now 50 Port-of-Subs in Nevada, California, Washington, and Arizona. "We are realizing an average growth per unit of 5 percent annually," says Pat. Total start-up costs for a franchisee are approximately \$120,000.

The Larsens project systemwide gross sales of \$12 million to \$15 million this year. Those figures mean a lot of submarine sandwiches—as many as 3 million, in fact, at \$2.45 to \$4.75 apiece. "People like our fresh dough, fresh ingredients, and superior quality meats and cheeses," says Larsen, "and, of course, our dressings and spices add the finishing touch."

The Larsens bought two sub shops in Reno in 1972 for \$100,000, changed the stores' names from Sub Shop to Port-of-Subs, and started slicing, dicing, shredding, and constructing subs for the city's lunch crowds.

"We use a real grass-roots marketing effort to get the word out to the consumer," says Pat Larsen. Direct mail, door hangers, and personal contact with area businesses are among the techniques she employs. Other factors contributing to the franchise's success, she says, include using fresh ingredients and making subs to order.

Specialty food franchises cover a wide variety of food types, such as yogurt (I Can't Believe It's Yogurt), cookies (The Original Great American Choco-



PHOTO: ©VAN VESSE-BLACK STAR

**Port-of-Subs President Patricia Larsen, left, recognized early the public's growing preference for healthy, fast, and convenient food.**

late Chip Cookie Company), gourmet coffee (Gloria Jean's Coffee Bean), doughnuts (Dunkin' Donuts), and pizza. For most specialty food outlets, carry-out or home-delivery service is generally offered, thus keeping space requirements to a minimum and reducing operating costs.

For example, Four Star Pizza, headquartered in Washington, Pa., requires 900 to 1,200 square feet of space per location. Four Star, a home-delivery pizza franchise, has more than 100 stores in 10 states and two foreign countries.

Four Star was founded by Alan and Susan Cottrill in 1981 because "it was something we knew, and we knew we could do it well," says Susan. Alan had gained experience as a Domino Pizza franchisee. The Cottrills put \$50,000 of savings into the first store and went to work. "We moved into the back of the store and lived there with our baby daughter for the first five months," says Susan.

The store's sales grew, and soon family members opened new locations in and around Washington. "When customers started asking us about starting their own Four Star Pizza outlets, we knew it was time to look at franchising," says Susan.

The Cottrills franchised Four Star in 1985. "We learned that in order to

grow, we couldn't do it all by ourselves," says Susan. "We had to have a team." Fresh ingredients, attention to product consistency, reasonable prices, and a team of hard-working franchisees spelled success for Four Star. Systemwide sales for 1989 were \$25 million.

In 1989, the couple sold the Four Star Pizza franchise to Cutco Industries Inc., a publicly held company that has franchised HairCrafters and Great Expectations Precision Haircutters for more than 30 years.

"We wanted to focus on expanding internationally and knew that we couldn't expand domestically and overseas and do both well," says Susan, the mother of four. Now, the Cottrills, as franchisees, own 17 Four Star Pizza units in the U.S.

In addition, the Cottrills hold the exclusive rights to sell Four Star Pizza franchises in other countries. This arrangement in effect makes them sub-franchisors of Four Star Franchise Corp., owned by Cutco. There are seven Four Star Pizza units operating in Ireland and two in Paris.

The biggest challenge over the past nine years was planning, says Susan: "That's the key thing. Keep everything in your life in balance, plan your growth, and concentrate on the local market." ■



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# Free Spirited Enterprise

By Janet Lowenstein

We've heard from some entrepreneurs who have ideas for making your businesses run safely and smoothly, helping you help others, and putting a little fun in your life.



ILLUSTRATIONS: STUART ARMSTRONG

## BETTER SAFE THAN SOILED

A new device from **Colortag Inc.**, of New York, makes shoplifting a dirty business.

The company produces a plastic tag that retailers attach to clothing. If the tag isn't removed properly, it will spray indelible ink on the goods.

European store owners first used Colortag in 1986. The manufacturer says it has significantly cut their losses from shoplifting.

The tag won't help you catch anyone red-handed, but it will leave the culprit ink-stained.

Seeing red may not be bad—as long as it's a warning on the Shockwatch label.

The Shockwatch, from **Media Recovery Inc.**, of Dallas, is a shipping label with a clear tube that turns red with rough handling. Media Recovery says shippers can reduce customer complaints about damaged goods by testing products with red labels.

## IN THE CARDS

If you want to be sure your business prospects remember you, **Cardwear Strips**,

from **IZER International**, of Los Angeles, may be for you. These peel-and-stick strips adapt business cards to fit most Rolodexes or other open business-card files.

Give your prospect your card with the strip attached, and the card should go in the desktop file, not the cluttered desk drawer.

The Cardwear system includes a tray with alphabetical dividers, a carrying case, and 150 strips.

## THANKS IN ADVANCE

To find out if your customers like your service, ask your employees to give them **American Credit Checks**.

Designed by **Success Products & Services**, of Lake Jackson, Texas, these checks are cards—about 2 1/2 by 4 inches—preprinted with a thank-you for your



employees. Happy customers can sign the card and give it to you or one of your workers. The card lets customers know you care about giving them good service, and it shows employees they're appreciated.

## FAT CATS FOR CHARITY

New York City executives aren't all business. Some are part ham.

These business people are performing voluntarily each week in a charitable fundraiser called the **Fat Cats Jamboree**. The show has featured a lawyer doing comedy, secretaries singing gospel, a financial adviser



who plays percussion on his fingers, and a public-relations consultant who sings torch songs.

The show is held every Wednesday night. Admission is \$20, which includes food and drink. The show benefits city parks, AIDS, and other charitable causes as well as the business people, who don't, as a rule, hear applause.

## THE SPORTING LIFE

Because there is more to life than business, **Visionation**, of Atlanta, makes Sports Flipp Tips.

Just flip through these 3-by-4-inch sequential picture books to see the step-by-step motion of a Mickey Mantle home run, a Kevin Mitchell barehanded catch, and other athletes in action.

Annotation accompanies the pictures to help aspiring amateurs learn to perform like the pros.



The manufacturer expects to have **Superstarr Flipp Tips** of entertainers available soon.

Before Lee Marvin revved his Harley in "The Wild One," Harley-Davidson motorcycles had traveled roads



in the U.S. and abroad.

**Harley-Davidson Inc.**, of Milwaukee, chronicles the company's nearly 90-year history—together with political and social events of the time—in *The Big Book of Harley-Davidson*. The book describes the bike from its creation in 1902 to its use as a combat vehicle in World War I and its resurgence as No. 1 in the heavyweight motorcycle market in 1989.

The book costs \$39.95, or \$159.95 for a leather-bound edition. A bike costs \$4,250 and up. **B**



## COMMENTARY

# Where I Stand

*Readers' responses to this poll give them a direct voice in the policy-making process of the U.S. Chamber of Commerce.*

## 1. Support Major Tax Hike At This Time?

President Bush and congressional leaders are negotiating a joint plan to cut the budget deficit. By announcing that the White House would enter talks without preconditions, the president brought on a torrent of speculation that he was ready to abandon his campaign pledge of "Read my lips: no new taxes." This encouraged congressional ad-

vocates of tax increases, who argue that deficit-reduction goals cannot be achieved without additional revenues. Opponents of higher taxes maintain that tax increases would have the opposite effect: They would stunt economic growth, decrease revenues, and enlarge the deficit. Should major tax increases be considered at this time?

## 2. Expand Penalties Under Job-Safety Law?

Under the Occupational Safety and Health Act (OSHA) as it now stands, employers can be jailed for willful violations that result in death. Bills pending in Congress would expand that provision to make employers subject to jail terms for willful violations that result in serious injuries or for "recklessly endangering" employees, even if no inju-

ries result. Supporters contend that employers who disregard safety should be punished severely before workers are killed. Opponents contend that the bill's arbitrary definitions could result in lengthy imprisonment of employers who were not even aware of safety hazards. Should criminal penalties under OSHA be expanded?

## 3. Let States Veto Offshore Oil, Gas Leasing?

Some in Congress propose overturning a Supreme Court decision that precludes states from wielding veto power over offshore oil and gas leases awarded by the secretary of the interior under the Coastal Zone Management Act. Proponents believe that the states should have wide latitude in vetoing activities that could have an impact on

water quality. Opponents say the CZMA currently protects coastal areas adequately while permitting vital energy development. Allowing states to block further development, they say, would increase America's already alarming dependence on foreign oil. Should Congress let states veto offshore oil and gas leasing?

### Verdicts On May Poll

*Here is how readers responded to the questions in the May issue.*

	Yes	No	Undecided
Enact a balanced-budget amendment to the Constitution?	91%	5%	4%
Require employers to share control of pension funds with workers?	31%	57%	12%
Should political-action committees be restricted further?	69%	23%	8%



Send in your vote on the inserted postpaid card. Your views on any of these questions are also welcome as letters to the Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.

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## COMMENTARY

# Congressional Alert

## Tax-Increase Opposition

American businesses and taxpayers may soon face the prospect of higher federal taxes in 1990—depending on the outcome of negotiations over the federal budget. A weakened economy and greater-than-expected costs



from the savings-and-loan bailout have pushed the projected fiscal 1991 budget deficit well above the Gramm-Rudman-Hollings target of \$64 billion. Congressional leaders and the Bush administration are wisely attempting to bring the growing deficit under control. But exactly how that is accomplished is of utmost importance to the national economy. A tax increase would do nothing to resolve the cause of the current budget problem—unchecked federal spending. Instead, a tax hike could sap the economy's growth potential and send the nation into a recession.

Historically, every tax increase has led to an even larger growth in spending. President Bush said it best in his 1988 campaign: "I've been in government a long time, and I've seen what happens when the government raises a dollar in revenues—Congress spends a dollar fifty."

Contact your representative and senators. Urge support for true deficit reduction through spending restraint and opposition to higher federal taxes.

## Line-Item Veto Authority

As the debate over budget reform takes shape in Congress, the need for presidential line-item veto authority has become stronger than ever. Despite bipartisan efforts to bring federal spending under control, the bud-



PHOTO: DAVID WILDEZ

get deficit threatens to grow significantly in fiscal 1991. Congress is expected soon to take up legislation designed to bring needed fiscal discipline to the federal budget process.

S. 1553, sponsored by Sens. Dan Coats, R-Ind., and John McCain, R-Ariz., would give the president the power to veto specific appropriations—the line items—in a spending bill within 20 days of signing such a bill. Congress then would have 20 days to overrule the president to block the cuts. This authority also would let the president cut the "pork-barrel" spending excesses that lawmakers often add to huge appropriations bills.

Currently, the president must veto an entire bill in order to prevent wasteful spending items from becoming law. Congress has used this fact to place pork-barrel spending projects in essential legislation that the president cannot afford to veto.

Urge your representative and senators to support giving the president line-item veto authority.

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

## Joint Production Ventures

Congress is considering legislation—H.R. 4611—designed to help U.S. firms remain internationally competitive. The bill would amend antitrust laws to encourage U.S. firms to engage in joint production ventures.



PHOTO: © HUBERT RATHJES—FOLIO, INC.

Such ventures would let firms pool their resources to produce innovative products and services that otherwise might be lost to foreign competitors. The Bush administration has announced its own proposal to encourage joint production ventures.

In 1984, Congress eased antitrust restrictions on joint research-and-development ventures—a recognition that U.S. firms must compete in a global market where advanced-technology products may have high development costs and short life spans. The Bush proposal and H.R. 4611 would extend the same treatment to joint production ventures. Under these proposals, firms that notify the federal government of their joint-venture plans would be exempt from treble damages under antitrust suits. Courts would have to use the "rule of reason" in deciding the competitiveness of a joint venture.

Contact your representative and senators, and urge them to support antitrust-reform measures that would encourage joint production ventures. **MB**



# Editorial

## Read This Chart: No New Taxes

President Bush first said it in his acceptance speech to the Republican national convention in New Orleans in August 1988:

*"The Congress will push me to raise taxes, and I'll say no. . . . They'll push again, and I'll say to them, 'Read my lips: no new taxes.'"*

Well, Congress has pushed and pushed again, and we suggest to the president that it's time to repeat the unqualified declaration that played such an important role in his landslide victory.

Since the day that President Bush took office, the chief political goal of the Democratic leaders in Congress has been to force him to renege on that pledge.

Now they think they have the president in a trap with a single escape hatch—higher taxes. They argue that the economy is already slowing and that spending cuts of the magnitude needed to meet deficit-reduction goals set by law could result in a recession or worse.

Their bottom line: President Bush has no choice but to agree to tax increases to keep the deficit in check.

It's all a lot of rubbish, of course.

Look at the chart on this page. In 1981, the federal government collected \$599 billion in taxes. This year, the take will be more than \$1 trillion, an increase of some 66 percent. Those numbers certainly do not support any assertion that American taxpayers have shirked their responsibilities.

But look at the spending column. Annual outlays went up 76 percent—to nearly \$1.2 trillion—between 1981 and the current fiscal year, compared with the 66-percent increase in revenues.

Revenues in the 10 fiscal years covered by this chart total \$7.8 trillion, while spending adds up to \$9.4 trillion. That's \$1.6 trillion worth of red ink over the period, despite the massive increase in tax revenues.

While the numbers get bigger, the basic process remains the same: Spending outruns taxes. Richard W. Rahn, vice president/chief economist of the U.S. Chamber of Commerce, which has been in the forefront of the movement opposing tax increases, sums it up in unmistakable terms: "The deficit is too big because Congress spends too much, not because the American people are taxed too little."

### YEAR TAXES SPENDING

1981	599	678
1982	618	746
1983	601	808
1984	667	852
1985	734	946
1986	769	990
1987	854	1,004
1988	909	1,064
1989	991	1,143
1990	1,074	1,197

Amounts in \$ Billions

Source: U.S. Office of Management and Budget

That's also the main theme of nearly 70 businesses and business organizations that have formed the Coalition for Fiscal Restraint (COFIRE) to oppose new or increased taxes.

A principal theme of that effort is support for President Bush's many and strongly worded commitments to oppose higher taxes. The coalition told the president:

*"We have strongly supported your pledge not to raise taxes on grounds that, like you, we are concerned that increasing taxes would have an adverse effect on continued economic growth."*

*"We are equally concerned about the burden which continuing large federal deficits place on future generations, and we are convinced that revenues generated by increased taxation will not be used to reduce these deficits."*

*"We urge you to stand firm in the current budget negotiations for deficit reduction through restraints on the growth of federal spending and . . . to resist all pressures for new or increased taxation."*

The intensified concern over tax policy stems from the White House-Congress budget summit on a deficit-reduction plan. The White House statement that it was entering the talks with no preconditions triggered speculation that the president would accept tax increases. But his position is not one of deficit reduction at any price. The White House has also said that any final plan must facilitate economic growth and strengthen the budget process.

U.S. Chamber economist Rahn says that if the negotiators are serious about no preconditions, "Social Security, Medicare, Civil Service retirement, and other entitlements will be on the table."

And if they are serious about economic growth, he adds, "taxes and burdensome regulations will be reduced, not increased." Strengthening the budget process, Rahn says, requires endorsement of line-item veto authority for the president and a constitutional amendment mandating a balanced budget and limits on tax increases.

Those benchmarks are valuable reminders that the business of the budget summit is not limited to the single question of raising taxes. The goal must be a fiscal policy best suited to maintaining economic health.

Higher taxes do not meet that test. ■





Hans Holbein The Younger, Henry VIII; Art Resource



# Under Reagan, only the rich got richer, right? Wrong.

The conventional view of the Reagan tax cuts is that they enriched the rich, soaked the poor and created deficits which, politicians say, can only be cut by raising taxes.

But Forbes reports that liberal Harvard economist Lawrence Lindsey says, thanks to Reagan's tax cuts, not only will the budget be balanced by the mid 90s, but the economy will be generating massive surplusses.

Lindsey says further that more tax cuts are necessary "to preserve the incentive and to avoid giving the politicians money for pork." Obviously not a popular notion on Capitol Hill.

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